



Westpac New Zealand Limited General Disclosure Statement

for the six months ended 31 March 2010

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General information and definitions

The information contained in this General Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 (**'Reserve Bank Act'**) and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (**'Order'**).

In this General Disclosure Statement reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the **'Bank'**).
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the **'Banking Group'**). Controlled entities of the Bank as at 31 March 2010 are set out in Note 26 Related entities.

Words and phrases defined by the Order have the same meaning when used in this General Disclosure Statement. All amounts referred to in this General 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, and the address for service of the Bank is, Level 15, 188 Quay Street, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited, 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 (**'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.

Westpac New Zealand Group Limited has a direct qualifying interest in 85% of the voting securities in the Bank. Westpac Overseas Holdings No. 2 Pty Limited has a direct qualifying interest in 15% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the securities of the Bank.

Westpac New Zealand Group Limited 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, each of the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited has 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'**) (please refer to the Bank's conditions of registration on page 7 of this General Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated as 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). Further information on the NZ Branch is available in Westpac Banking Corporation's General Disclosure Statement for the six months ended 31 March 2010.

Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an authorised deposit-taking institution (**'ADI'**) under the Banking Act 1959 of Australia (**'Australian Banking Act'**) and, as such, is subject to prudential regulation and supervision by the Australian Prudential Regulation Authority (**'APRA'**). APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APRA's Prudential Standard APS 222 Associations with Related Entities (**'APS 222'**). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being a related ADI as defined in APS 222) must not exceed 50% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank (such as a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the Board of Directors of the Ultimate Parent Bank must have regard to:
 - the level of exposures that would be approved to third parties of broadly equivalent credit status; and
 - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions, and its ability to continue operating, in the event of a failure by the Bank or any other related entity to which it is exposed.

The Ultimate Parent Bank complies with the requirements set by APRA in respect of the extent of financial support that is provided to the Bank.

Section 13A(3) of the Australian Banking Act provides that, in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy, in priority to all other liabilities of the Ultimate Parent Bank:

- firstly, certain obligations of the Ultimate Parent Bank to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of 'protected accounts' (as defined in the Australian Banking Act) as part of the financial claims scheme (**'FCS'**) for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A\$1 million in the winding-up of the Ultimate Parent Bank;
- secondly, APRA's costs (if any) in exercising its powers and performing its functions relating to the Ultimate Parent Bank in connection with the FCS; and
- thirdly, the Ultimate Parent Bank's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

General matters (continued)

Under section 16 of the Australian Banking Act, in the winding-up of an ADI, debts due to APRA shall have, subject to section 13A(3) of the Australian Banking Act, priority over all other unsecured debts of that ADI. Further, under section 86 of the Reserve Bank Act 1959 of Australia, debts due by an ADI to the Reserve Bank of Australia shall, in the winding-up of that ADI, have, subject to section 13A(3) of the Australian Banking Act, priority over all other debts, other than debts due to the Commonwealth of Australia.

Directorate

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

Name: Peter David Wilson, CA
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No¹

External Directorships: Chairman of each of Kermadec Property Fund Limited and PF Olsen Limited. Director of each of Farmlands Trading Society Limited and The Colonial Motor Company Limited. Member of New Zealand Markets Disciplinary Tribunal and Chairman of the Special Division of that Tribunal.

Name: Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No¹

External Directorships: Chairman of each of Caltex Australia Limited, Caltex Australia Petroleum Pty Ltd, Caltex Australia Custodians Pty Ltd, UniSuper Limited and UniSuper Management Pty Ltd. Director of each of Australian Institute of Company Directors and E. Bryan Superannuation Fund Pty Ltd.

Name: Philip Matthew Coffey, BEc (Hons.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Chief Financial Officer, Westpac Banking Corporation
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No

External Directorships: Director of each of MBMC Pty Ltd and MBMC Futures Pty Ltd.

Name: George Frazis, B.Eng. (Elec.)(Hons.), MBA
Non-executive: No
Country of Residence: New Zealand
Primary Occupation: Chief Executive, Westpac New Zealand Limited
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: No

External Directorships: Director of each of White Cap Investments Pty Ltd and Museum of Contemporary Art Ltd.

Name: Harold Maffey Price
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of each of IAG (NZ) Limited and IAG (NZ) Holdings Limited.

Name: Ralph Graham Waters, C.P.Eng, F.I.E (AUST), M.Bus
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of Fisher & Paykel Appliances Holdings Limited. Director of each of Fletcher Building Finance Limited, Fletcher Building Limited, Argie Pty Limited, Gragill Pty Limited, Fonterra Co-operative Group Limited, Tyree Holdings Pty Ltd and Tyree Australia Pty Ltd.

¹ While Elizabeth Bryan and Peter Wilson are Independent Directors of the Ultimate Parent Bank, they are not Independent Directors of the Bank under the conditions of registration imposed on the Bank.

Since publication of the Bank's General Short Form Disclosure Statement for the three months ended 31 December 2009, there has been a change to the composition of the Board. Gail Patricia Kelly resigned, and Philip Matthew Coffey was appointed, with effect from 1 March 2010. All communications may be sent to the Directors at the head office of the Bank at Level 15, 188 Quay Street, Auckland, New Zealand.

Conflicts of interest policy

The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are avoided or dealt with. The Bank's policy is consistent with the conflicts of interest policy of the Ultimate Parent Bank and its subsidiaries ('**Ultimate Parent Bank Group**').

General matters (continued)

Accordingly, each Director must:

- (i) give notice to the Board of any direct or indirect interest in any contract or proposed contract with the Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract between the Bank and a person or persons specified in that notice; and
- (ii) in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

Interested transactions

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director, with the Bank, or any member of the Banking Group:

- (a) on terms other than on those that would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or
- (b) which could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Auditors

PricewaterhouseCoopers

PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

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.

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

On 31 March 2010, the Bank's credit rating issued by Fitch Ratings changed from AA- to AA with a 'stable' outlook. In the two years prior to 31 March 2010, the rating issued by Fitch Ratings was AA-. The rating outlook at 31 March 2008 was 'stable' but was moved to 'positive' on 6 June 2008. The rating was changed to 'stable' from positive on 3 December 2008 and that position was unchanged until 31 March 2010 when the rating was upgraded with a 'stable' outlook.

In the two years prior to 31 March 2010, the Bank's credit rating issued by Moody's Investors Service has not changed at Aa2 with a 'stable' outlook.

In the two years prior to 31 March 2010, the Bank's credit rating issued by Standard & Poor's has not changed at AA with a 'stable' outlook.

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, qualified, withdrawn or suspended at any time.

Descriptions of credit rating scales¹

| | Fitch Ratings | Moody's Investors Service | Standard & Poor's |
|---|---------------|------------------------------|----------------------|
| The following grades display investment grade characteristics: | | | |
| Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating. | AAA | Aaa | AAA |
| Very strong capacity to meet financial commitments. | AA | Aa | AA |
| Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions. | A | A | A |
| Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity. | BBB | Baa | BBB |
| The following grades have predominantly speculative characteristics: | | | |
| Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis. | BB | Ba | BB |
| Greater vulnerability and therefore greater likelihood of default. | B | B | B |
| Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and financial conditions. | CCC | Caa | CCC |
| Highest risk of default. | CC to C | Ca | CC |
| Obligations currently in default. | RD to D | C | SD to D |

¹ This is a general description of the rating categories based on information published by Fitch Ratings, Moody's Investors Service and Standard & Poor's.

Credit ratings by Fitch Ratings and Standard & Poor's may be modified by a plus (higher end) or minus (lower end) sign to show relative standing within the major categories. Moody's Investors Service apply numeric modifiers 1 (higher end), 2 or 3 (lower end) to ratings from Aa to Caa to show relative standing within the major categories.

Ratings stated in **bold** indicate the Bank's current approximate position within the credit rating scales.

Historical summary of financial statements

| | The Banking Group | | | | |
|---|---|---|---|--|---|
| | Six Months Ended 31 March 2010 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Year Ended 30 September 2008 Audited \$m | Year Ended 30 September 2007 ¹ Audited \$m | Period from 14 February 2006 to 30 September 2006 Audited \$m |
| Income statement | | | | | |
| Interest income | 1,742 | 3,988 | 4,327 | 3,337 | 15 |
| Interest expense | (1,173) | (2,672) | (3,052) | (2,297) | (5) |
| Net interest income | 569 | 1,316 | 1,275 | 1,040 | 10 |
| Non-interest income | 146 | 363 | 428 | 330 | - |
| Net operating income | 715 | 1,679 | 1,703 | 1,370 | 10 |
| Operating expenses | (341) | (708) | (709) | (605) | - |
| Impairment charges on loans | (207) | (620) | (170) | (85) | - |
| Profit before income tax expense | 167 | 351 | 824 | 680 | 10 |
| Income tax expense | (51) | (103) | (262) | (231) | (3) |
| Profit after income tax expense | 116 | 248 | 562 | 449 | 7 |
| Profit after income tax expense attributable to: | | | | | |
| Owners of the Banking Group | 115 | 245 | 559 | 446 | 7 |
| Non-controlling interests | 1 | 3 | 3 | 3 | - |
| Profit after income tax expense | 116 | 248 | 562 | 449 | 7 |
| Dividends paid or provided | (3) | (328) | (335) | (217) | - |
| Balance sheet | | | | | |
| Total assets | 56,254 | 54,509 | 52,295 | 47,011 | 2,415 |
| Total impaired assets (including restructured assets) | 730 | 671 | 278 | 118 | - |
| Total liabilities | 52,346 | 50,745 | 47,380 | 44,317 | 708 |
| Total equity | 3,908 | 3,764 | 4,915 | 2,694 | 1,707 |

¹ The financial performance includes the trading result of the Bank as a registered bank for the 11 months ended 30 September 2007.

The amounts for the years ended 30 September have been extracted from the audited financial statements of the Banking Group. The first accounting period for the Bank and the Banking Group was the period from 14 February 2006 to 30 September 2006.

Guarantee arrangements

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

Government guarantees

The Bank has entered into the following guarantees with the New Zealand Government ('**Crown**')

- (i) a Crown Deed of Guarantee dated 11 November 2008, amended by a supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**');
- (ii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**'); and
- (iii) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together the '**Wholesale Guarantee**').

The following descriptions of the Deposit Guarantee, the Revised Deposit Guarantee and the Wholesale Guarantee ('**Government Guarantees**') are for general information purposes only, and do not purport to be exhaustive. For full information on the terms of the Government Guarantees refer to the Government Guarantees, copies of which are included in the Bank's Supplemental Disclosure Statement.

The guarantor of the Bank's obligations under the Government Guarantees is the Crown. The Crown's address for service in relation to the Deposit Guarantee and Revised Deposit Guarantee is 1 The Terrace, Wellington, New Zealand.

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 (made by delivery by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Government Guarantees is available from the Treasury internet site www.treasury.govt.nz. The most recent audited financial statements of the Crown may also be obtained from the Treasury internet site.

Guarantee arrangements (continued)

The Crown has the following credit ratings in respect of its long-term obligations payable in New Zealand dollars. The only change to the ratings in the two years immediately before the latest balance date was the Fitch Ratings outlook changing from stable to negative on 16 July 2009.

| Rating Agency | The Crown's Current Credit Rating | Outlook |
|---------------------------|-----------------------------------|----------|
| Moody's Investors Service | Aaa | Stable |
| Standard & Poor's | AAA | Stable |
| Fitch Ratings | AAA | Negative |

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, withdrawn or suspended at any time.

For an explanation of the credit rating scales see the table under the sub-heading "Descriptions of credit rating scales" on page 3 of this General Disclosure Statement.

Deposit Guarantee

Obligations guaranteed

The obligations guaranteed by the Crown under the Deposit Guarantee are obligations of the Bank, incurred before 1 January 2010, to pay money (whether present or future) to a Creditor (as defined in the Deposit Guarantee) under certain debt securities (**'Indebtedness'**).

The Crown:

- (i) guarantees to each Creditor payment by the Bank of:
 - (a) all Indebtedness that becomes payable between 12 October 2008 and 11 October 2010 (inclusive) (**'Guarantee Period'**); and
 - (b) if certain default events described in the Deposit Guarantee occur during the Guarantee Period, all Indebtedness and interest that exists on the date of that default event; and
- (ii) undertakes to each Creditor that, if the Bank does not pay to any Creditor any Indebtedness or interest guaranteed when payable, then the Crown will pay the amount of that Indebtedness or interest to the Creditor.

Subordinated debt is not covered by the Deposit Guarantee.

Limits on the amount of obligations guaranteed

The maximum liability of the Crown to each Creditor under the Deposit Guarantee is \$1 million, or such other amount as may be specified in respect of a 'Nominated Beneficiary' pursuant to the Deposit Guarantee. The \$1 million cap is on individual Creditors (e.g. a natural person or company), not on individual bank accounts.

Material conditions applicable to the guarantee

The following is a summary of the material conditions applicable to the Deposit Guarantee other than non-performance by the Bank.

The Crown will not be liable to any Creditor under the Deposit Guarantee if, as at 11 November 2008, a **'Default Event'** (as that term is defined in the Deposit Guarantee) with respect to the Bank has occurred and is continuing unremedied. Also, any Indebtedness that arises following a Default Event, other than interest accruing on Indebtedness existing at the Default Event, is not covered by the Deposit Guarantee.

The Crown will not be obliged to pay a Creditor under the Deposit Guarantee unless and until the Crown:

- (i) receives a notice of claim from the Creditor in respect of relevant Indebtedness; and
- (ii) has satisfied itself as to the amount of the Indebtedness and the extent of its liability under the Deposit Guarantee.

Where the Bank's Indebtedness is or becomes the subject of any guarantee, the Bank must:

- (i) use all reasonable endeavours to ensure that Creditors claim under that other guarantee before claiming against the Crown under the Deposit Guarantee; and
- (ii) (if applicable) ensure that the Crown has the benefit of that other guarantee in respect of any amounts paid to Creditors under the Deposit Guarantee.

Expiry and withdrawal of the guarantee

The Deposit Guarantee, in its current form, is due to expire at the end of 11 October 2010. The Deposit Guarantee may be withdrawn by the Crown in certain circumstances as set out in the Deposit Guarantee. The Bank does not have an option to roll over or renew the Deposit Guarantee.

Extension of the Deposit Guarantee

On 25 August 2009, the Crown announced an extension of the Deposit Guarantee until 31 December 2011. The extension is effectively a new guarantee scheme. The new scheme will commence on 12 October 2010 (when the existing Deposit Guarantee ends) and end on 31 December 2011. The Bank must reapply if it wishes to have a guarantee under the new scheme. As at the date of this General Disclosure Statement, no such application has been made by the Bank. Further details of the new scheme are available from the Treasury internet site www.treasury.govt.nz.

Revised Deposit Guarantee

Obligations guaranteed

The obligations guaranteed by the Crown under the Revised Deposit Guarantee are obligations of the Bank to pay money (whether present or future) to a Creditor (as defined in the Revised Deposit Guarantee) under certain debt securities (**'Revised Guarantee Indebtedness'**).

Under the Revised Deposit Guarantee the Crown:

- (i) guarantees to each Creditor payment by the Bank of:
 - (a) all Revised Guarantee Indebtedness that becomes payable during the Guarantee Period; and
 - (b) if certain default events described in the Revised Deposit Guarantee occur during the Guarantee Period, all Revised Guarantee Indebtedness arising under debt securities that exist on the date of that default event; and

Guarantee arrangements (continued)

(ii) undertakes to each Creditor that if the Bank does not pay to any Creditor any Revised Guarantee Indebtedness when payable, the Crown will pay the amount of that Revised Guarantee Indebtedness to the Creditor.

The Revised Deposit Guarantee does not cover subordinated debt, debt covered by the Deposit Guarantee or the Wholesale Guarantee, and certain other debt specified in the Revised Deposit Guarantee.

Limits on the amount of obligations guaranteed

The maximum aggregate liability of the Crown to each Creditor under the Revised Deposit Guarantee and any guarantee that replaces the Revised Deposit Guarantee is \$1 million, or such other amount as may be specified in respect of a 'Nominated Beneficiary' pursuant to the Revised Deposit Guarantee. The \$1 million cap is on individual Creditors (e.g. a natural person or company), not on individual bank accounts.

Material conditions applicable to the guarantee

The following is a summary of the material conditions applicable to the Revised Deposit Guarantee other than non-performance by the Bank.

The Crown will not be liable to any Creditor under the Revised Deposit Guarantee if, as at 16 December 2009, a '**Default Event**' (as that term is defined in the Revised Deposit Guarantee) with respect to the Bank has occurred and is continuing unremedied. Also, any Revised Guarantee Indebtedness that arises or is acquired by the Creditor following a Default Event or notice of withdrawal of the Revised Deposit Guarantee is not covered by the Revised Deposit Guarantee.

The Crown will not be obliged to pay a Creditor under the Revised Deposit Guarantee unless and until the Crown:

- (i) receives a notice of claim from the Creditor in respect of relevant Revised Guarantee Indebtedness; and
- (ii) has satisfied itself as to the amount of the Revised Guarantee Indebtedness and the extent of its liability under the Revised Deposit Guarantee.

Where the Bank's Revised Guarantee Indebtedness is or becomes the subject of any guarantee, the Bank must:

- (i) use all reasonable endeavours to ensure that Creditors claim under that other guarantee before claiming against the Crown under the Revised Deposit Guarantee; and
- (ii) (if applicable) ensure that the Crown has the benefit of the other guarantee in respect of any amounts paid to Creditors under the Revised Deposit Guarantee.

The Crown may also limit its liability under the Revised Deposit Guarantee in respect of any debt securities in the event the Bank varies such debt securities in accordance with, or in contemplation of, any compromise or agreement with its creditors.

Expiry and withdrawal of the guarantee

The Revised Deposit Guarantee, in its current form, is due to expire at the end of 11 October 2010. The Revised Deposit Guarantee may be withdrawn by the Crown in certain circumstances, as set out in the Revised Deposit Guarantee. The Bank does not have an option to roll over or renew the Revised Deposit Guarantee.

Wholesale Guarantee

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.

For a liability of the Bank to be covered by the Wholesale Guarantee, the Bank must apply to the Crown for a Guarantee Eligibility Certificate in respect of that liability. The decision to issue a Guarantee Eligibility Certificate in respect of a liability of the Bank is at the absolute discretion of the Crown.

The Crown:

- (i) guarantees to each Beneficiary the payment by the Bank of any Guaranteed Liability owed to that Beneficiary; and
- (ii) undertakes to each Beneficiary that, if the Bank does not pay any Guaranteed Liability owed to that Beneficiary on its due date, the Crown will pay that Guaranteed Liability.

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. 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.

Limits on the amount of obligations guaranteed

The obligations of the Crown in respect of a Guaranteed Liability are limited to the relevant payment obligations of the Bank in respect of principal and interest under the particular debt securities that are specified in the relevant Guarantee Eligibility Certificate.

Material conditions applicable to the guarantee

The material conditions applicable to the Wholesale Guarantee, other than non-performance by the Bank, are summarised below:

- (i) The Crown is not liable in respect of any Guaranteed Liability that has been amended in any respect without the prior written consent of the Crown.
- (ii) The Crown is not liable in respect of any Guaranteed Liability until the Crown receives a written demand for that payment that complies with the requirements set out in the Wholesale Guarantee.
- (iii) Special conditions may be specified in the Guarantee Eligibility Certificate in respect of a particular Guaranteed Liability.

Guarantee arrangements (continued)

The Crown has also imposed a requirement that locally incorporated registered banks having the benefit of the Wholesale Funding Guarantee Facility maintain an additional 2% Tier One Capital ratio buffer, above the regulatory minimum 4% Tier One Capital ratio. The Crown has indicated that, if this additional buffer is not maintained by a bank, no further Guarantee Eligibility Certificates will be issued in relation to that bank's liabilities. The Bank complies with this requirement.

Expiry and withdrawal of the guarantee

The Wholesale Guarantee closed on 30 April 2010. From that time, no new Guarantee Eligibility Certificates will be issued. Existing Guaranteed Liabilities will not be affected.

In respect of 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.

Pending proceedings or arbitration

There are no legal proceedings pending at the date of this General Disclosure Statement that may have a material adverse effect on the Banking Group or the Bank.

A description of the contingent liabilities of the Banking Group and the Bank is set out in Note 29.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 30 March 2010, 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 document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 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 March 2008 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 March 2008 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 March 2008 is 1.06.

For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is the sum of:

- (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and
- (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where
 - (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from Tier One Capital, plus deductions from Total Capital, all calculated in accordance with the Reserve Bank document 'Capital adequacy framework (Basel I approach)' (BS2) dated March 2008;
 - (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from Tier One Capital, plus deductions from Total Capital, less any amount included in Tier Two Capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and
 - (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off-balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

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 March 2008; and
- (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

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 March 2008.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice as defined in the Financial Reporting Act 1993.

Conditions of registration (continued)

3. That the Banking Group's insurance business is not greater than 1 percent of its total consolidated assets. For the purposes of this condition:
- Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - In measuring the size of a Banking Group's insurance business:
 - where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity; or
 - if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
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 Using 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 March 2008.

- 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.
- That the Board of the Bank contains 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.
- That the chairperson of the Bank's Board is not an employee of the Bank.
- That the Bank's constitution does 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).
- That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made unless:
 - the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - the Reserve Bank has advised that it has no objection to that appointment.
- That a substantial proportion of the Bank's business is conducted in and from New Zealand.
- 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:
 - that the Bank's clearing and settlement obligations due on a day can be met on that day;
 - that the Bank's financial risk positions on a day can be identified on that day;
 - that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
 - 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.

Until 31 March 2010, functions provided to the Bank by Paymark Limited (previously Electronic Transaction Services Limited) and Interchange and Settlement Limited are not covered by this condition.

Conditions of registration (continued)

12. (a) That the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank.
(b) That 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.
(c) That by 31 December 2007 all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and be 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. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
 - (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
 - (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
 - (c) the one-year core funding ratio of the Banking Group is not less than 65 percent 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 2010 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.
15. That, with effect from 1 April 2010, 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:
 - (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993. The Bank's conditions of registration were changed on 23 March 2010, with effect from 30 March 2010, with respect to the revised Reserve Bank documents entitled 'Liquidity Policy' (BS13) and 'Liquidity Policy Annex: Liquid Assets' (BS13A), which were previously dated 20 October 2009 and October 2009 respectively, and were both revised in March 2010.

The Reserve Bank's Outsourcing Policy (BS11) requires that certain core functions must be available under normal conditions and in the event of stress or failure of the Bank or of a service provider to the Bank. For the purposes of BS11 and condition 11 of the Bank's conditions of registration, services provided to the Bank by the Ultimate Parent Bank or the NZ Branch are regarded as outsourced. During the six months ended 31 March 2010, the Bank has complied with condition 11 of its conditions of registration except in the two respects set out below, both of which involve certain services provided to the Bank by the Ultimate Parent Bank or its NZ Branch:

- Growing customer demand for automated payment solutions has resulted in the potential requirement to add a back-up system and add more legal controls in relation to one product for a small number of business customers. Actions are underway to remediate this issue.
- In the event of stress or failure of the Bank or a service provider to the Bank, the Bank must be able to provide legal and practical controls relating to certain settlement tasks. The Bank needed to enhance its practical controls in this area and did so during the three months ended 31 December 2009.

Proposed transfer of additional banking operations to Westpac New Zealand Limited

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. The conditions of registration of each of the Bank and the NZ Branch are consistent with these operating model arrangements.

In May 2009, the Reserve Bank, the Bank and the NZ Branch agreed to an independent review of the structure of the operating model of the Ultimate Parent Bank's business in New Zealand. This review was conducted under the well established processes and framework of section 95 of the Reserve Bank Act.

The Reserve Bank, the Bank and the Ultimate Parent Bank have now reached high level agreement on changes to the operating model. Under that agreement, the NZ Branch will transfer the following additional business activities and associated employees to the Bank:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending;
- debt capital markets (including customer loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes); and
- corporate advisory.

Proposed transfer of additional banking operations to Westpac New Zealand Limited (continued)

While high level agreement has been reached on the operating model, agreement on the detail and implementation programme is also required and will be the subject of further consultation with the Reserve Bank.

As at 31 March 2010, business activities proposed to be transferred to the Bank include: customer loans of approximately \$7.0 billion, customer deposits of approximately \$4.4 billion, and term intra-group funding of approximately \$3.0 billion. In addition, for the six months ended 31 March 2010, it is estimated that the business activities to be transferred to the Bank had aggregate revenues of approximately \$90 million and aggregate net profit after tax of approximately \$50 million.

Following the transfer of these operations, the Bank is likely to have additional funding requirements, all or substantially all of which it expects to meet initially through intra-group borrowing, subject to applicable regulatory limitations.

Under the proposed changes to the operating model, the NZ Branch will retain its 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, and trading of capital markets products and foreign exchange as principal. In addition, the NZ Branch will retain its global intra-group financing functions.

In conjunction with the review and the proposed transfer of these business activities, the Bank has been reviewing its management and operational frameworks, including governance and risk management arrangements (such as board composition, board delegations, credit risk reporting and treasury risk reporting), financial and regulatory reporting processes, and settlement and payment systems and functions.

Implementation of the transfer is currently expected to be completed by the end of the 2011 calendar year.

Other material matters

There are no matters relating to the business or affairs of the Bank and the Banking Group which are not contained elsewhere in the General Disclosure Statement and which would, if disclosed, materially adversely 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.

Supplemental disclosure statement

A copy of the Bank's most recent Supplemental Disclosure Statement will be provided immediately, free of charge, to any person requesting a copy where the request is made at the Bank's head office, Level 15, 188 Quay Street, Auckland. It is also available, free of charge, at the internet address www.westpac.co.nz or within five working days of any request, at any branch of the Bank and at any staffed premises of an agency of the Bank, primarily engaged in the business of the Bank, or other staffed premises of the Bank, to which its customers have access in order to conduct banking business.

The Bank's most recent Supplemental Disclosure Statement contains a copy of the bilateral netting agreement (refer to Note 40), a copy of the Crown Deeds of Guarantee and Supplemental Deed to the Crown Deed of Guarantee between the Bank and the Crown (refer page 4) and a copy of the Crown Wholesale Funding Guarantee granted by the Crown in respect of the Bank (refer to page 4).

Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this General Disclosure Statement is signed, the General 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 six months ended 31 March 2010 and except for the matter related to outsourcing referred to after the conditions of registration on page 9:

- (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 Directors' Statement has been signed by all the Directors:



Peter David Wilson



Elizabeth Blomfield Bryan



Philip Matthew Coffey



George Frazis



Harold Maffey Price



Ralph Graham Waters

Dated this 26th day of May 2010

Financial statements

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Income statements for the six months ended 31 March 2010

| | Note | The Banking Group | | | The Bank | | |
|--|------|--|--|--|--|--|--|
| | | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Interest income | 2 | 1,742 | 2,145 | 3,988 | 1,732 | 2,133 | 3,964 |
| Interest expense | 2 | (1,173) | (1,445) | (2,672) | (1,182) | (1,442) | (2,672) |
| Net interest income | | 569 | 700 | 1,316 | 550 | 691 | 1,292 |
| Non-interest income: | | | | | | | |
| Fees and commissions | 3 | 144 | 175 | 346 | 143 | 173 | 341 |
| Gain on ineffective hedges | 3 | 7 | 2 | 1 | 7 | 2 | 1 |
| Other non-interest income | 3 | (5) | 8 | 16 | (6) | 55 | 62 |
| Total non-interest income | | 146 | 185 | 363 | 144 | 230 | 404 |
| Net operating income | | 715 | 885 | 1,679 | 694 | 921 | 1,696 |
| Operating expenses | 4 | (341) | (341) | (708) | (338) | (337) | (701) |
| Impairment charges on loans | 6 | (207) | (316) | (620) | (197) | (316) | (612) |
| Operating profit | | 167 | 228 | 351 | 159 | 268 | 383 |
| Share of profit of associate accounted for using equity method | | - | - | - | - | - | - |
| Profit before income tax expense | | 167 | 228 | 351 | 159 | 268 | 383 |
| Income tax expense | 7 | (51) | (66) | (103) | (48) | (63) | (98) |
| Profit after income tax expense | | 116 | 162 | 248 | 111 | 205 | 285 |
| Profit after income tax expense attributable to: | | | | | | | |
| Owners of the Banking Group | | 115 | 160 | 245 | 111 | 205 | 285 |
| Non-controlling interests | | 1 | 2 | 3 | - | - | - |
| | | 116 | 162 | 248 | 111 | 205 | 285 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statements of comprehensive income for the six months ended 31 March 2010

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Profit after income tax expense | 116 | 162 | 248 | 111 | 205 | 285 |
| Other comprehensive income: | | | | | | |
| Net unrealised gains from changes in fair value of available-for-sale securities | 19 | 3 | 2 | 19 | 3 | 2 |
| Cash flow hedges: | | | | | | |
| Net gains/(losses) from changes in fair value of cash flow hedges | 7 | (33) | (15) | 7 | (33) | (15) |
| Transferred to the income statement | 3 | (1) | (3) | 3 | (1) | (3) |
| Actuarial gains on employee defined benefit superannuation schemes | 7 | - | 30 | 7 | - | 30 |
| Income tax relating to components of other comprehensive income ¹ | (5) | 10 | (5) | (5) | 10 | (5) |
| Other comprehensive income/(expense) for the period/year, net of tax | 31 | (21) | 9 | 31 | (21) | 9 |
| Total comprehensive income for the period/year | 147 | 141 | 257 | 142 | 184 | 294 |
| Total comprehensive income attributable to: | | | | | | |
| Owners of the Banking Group | 146 | 139 | 254 | 142 | 184 | 294 |
| Non-controlling interests | 1 | 2 | 3 | - | - | - |
| Total comprehensive income for the period/year | 147 | 141 | 257 | 142 | 184 | 294 |

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

Tax effects relating to each component of other comprehensive income

| | The Banking Group | | | The Bank | | |
|--|--------------------------|------------------------------|--------------------------|--------------------------|------------------------------|--------------------------|
| | Before tax amount \$m | Tax (expense)/benefit \$m | Net of tax amount \$m | Before tax amount \$m | Tax (expense)/benefit \$m | Net of tax amount \$m |
| For the six months ended 31 March 2010 (unaudited) | | | | | | |
| Net unrealised gains from changes in fair value of available-for-sale securities | 19 | - | 19 | 19 | - | 19 |
| Cash flow hedges: | | | | | | |
| Net gains from changes in fair value of cash flow hedges | 7 | (2) | 5 | 7 | (2) | 5 |
| Transferred to the income statement | 3 | (1) | 2 | 3 | (1) | 2 |
| Actuarial gains on employee defined benefit superannuation schemes | 7 | (2) | 5 | 7 | (2) | 5 |
| Other comprehensive income | 36 | (5) | 31 | 36 | (5) | 31 |
| For the six months ended 31 March 2009 (unaudited) | | | | | | |
| Net unrealised gains from changes in fair value of available-for-sale securities | 3 | - | 3 | 3 | - | 3 |
| Cash flow hedges: | | | | | | |
| Net losses from changes in fair value of cash flow hedges | (33) | 10 | (23) | (33) | 10 | (23) |
| Transferred to the income statement | (1) | - | (1) | (1) | - | (1) |
| Other comprehensive expense | (31) | 10 | (21) | (31) | 10 | (21) |
| For the year ended 30 September 2009 (audited) | | | | | | |
| Net unrealised gains from changes in fair value of available-for-sale securities | 2 | - | 2 | 2 | - | 2 |
| Cash flow hedges: | | | | | | |
| Net losses from changes in fair value of cash flow hedges | (15) | 5 | (10) | (15) | 5 | (10) |
| Transferred to the income statement | (3) | 1 | (2) | (3) | 1 | (2) |
| Actuarial gains on employee defined benefit superannuation schemes | 30 | (11) | 19 | 30 | (11) | 19 |
| Other comprehensive income | 14 | (5) | 9 | 14 | (5) | 9 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the six months ended 31 March 2010

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 2008 | 4,550 | 344 | 16 | (3) | 4,907 | 8 | 4,915 |
| Six months ended 31 March 2009 | | | | | | | |
| Profit after income tax expense | - | 160 | - | - | 160 | 2 | 162 |
| Other comprehensive income/(expense) | - | - | 3 | (24) | (21) | - | (21) |
| Total comprehensive income/(expense) for the six months ended 31 March 2009 | - | 160 | 3 | (24) | 139 | 2 | 141 |
| Transaction with owners: | | | | | | | |
| Ordinary share capital issued | 220 | - | - | - | 220 | - | 220 |
| Preference share capital redeemed | (1,300) | - | - | - | (1,300) | - | (1,300) |
| Dividends paid on ordinary shares | - | (220) | - | - | (220) | (4) | (224) |
| Dividends paid on preference shares | - | (104) | - | - | (104) | - | (104) |
| As at 31 March 2009 (unaudited) | 3,470 | 180 | 19 | (27) | 3,642 | 6 | 3,648 |
| Year ended 30 September 2009 | | | | | | | |
| Profit after income tax expense | - | 245 | - | - | 245 | 3 | 248 |
| Other comprehensive income | - | 19 | 2 | (12) | 9 | - | 9 |
| Total comprehensive income/(expense) for the year ended 30 September 2009 | - | 264 | 2 | (12) | 254 | 3 | 257 |
| Transaction with owners: | | | | | | | |
| Ordinary share capital issued | 220 | - | - | - | 220 | - | 220 |
| Preference share capital redeemed | (1,300) | - | - | - | (1,300) | - | (1,300) |
| Dividends paid on ordinary shares | - | (220) | - | - | (220) | (4) | (224) |
| Dividends paid on preference shares | - | (104) | - | - | (104) | - | (104) |
| As at 30 September 2009 (audited) | 3,470 | 284 | 18 | (15) | 3,757 | 7 | 3,764 |
| Six months ended 31 March 2010 | | | | | | | |
| Profit after income tax expense | - | 115 | - | - | 115 | 1 | 116 |
| Other comprehensive income | - | 5 | 19 | 7 | 31 | - | 31 |
| Total comprehensive income for the six months ended 31 March 2010 | - | 120 | 19 | 7 | 146 | 1 | 147 |
| Transaction with owners: | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | (3) | (3) |
| As at 31 March 2010 (unaudited) | 3,470 | 404 | 37 | (8) | 3,903 | 5 | 3,908 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity (continued) for the six months ended 31 March 2010

| | The Bank | | | | |
|--|-------------------------|----------------------------|--|--------------------------------------|--------------|
| | Share Capital \$m | Retained Profits \$m | Available-for- Sale Securities Reserve \$m | Cash Flow Hedge Reserve \$m | Total \$m |
| As at 1 October 2008 | 4,550 | 269 | 16 | (3) | 4,832 |
| Six months ended 31 March 2009 | | | | | |
| Profit after income tax expense | - | 205 | - | - | 205 |
| Other comprehensive income/(expense) | - | - | 3 | (24) | (21) |
| Total comprehensive income/(expense) for the six months ended 31 March 2009 | - | 205 | 3 | (24) | 184 |
| Transaction with owners: | | | | | |
| Ordinary share capital issued | 220 | - | - | - | 220 |
| Preference share capital redeemed | (1,300) | - | - | - | (1,300) |
| Dividends paid on ordinary shares | - | (220) | - | - | (220) |
| Dividends paid on preference shares | - | (104) | - | - | (104) |
| As at 31 March 2009 (unaudited) | 3,470 | 150 | 19 | (27) | 3,612 |
| Year ended 30 September 2009 | | | | | |
| Profit after income tax expense | - | 285 | - | - | 285 |
| Other comprehensive income/(expense) | - | 19 | 2 | (12) | 9 |
| Total comprehensive income/(expense) for the year ended 30 September 2009 | - | 304 | 2 | (12) | 294 |
| Transaction with owners: | | | | | |
| Ordinary share capital issued | 220 | - | - | - | 220 |
| Preference share capital redeemed | (1,300) | - | - | - | (1,300) |
| Dividends paid on ordinary shares | - | (220) | - | - | (220) |
| Dividends paid on preference shares | - | (104) | - | - | (104) |
| As at 30 September 2009 (audited) | 3,470 | 249 | 18 | (15) | 3,722 |
| Six months ended 31 March 2010 | | | | | |
| Profit after income tax expense | - | 111 | - | - | 111 |
| Other comprehensive income | - | 5 | 19 | 7 | 31 |
| Total comprehensive income for the six months ended 31 March 2010 | - | 116 | 19 | 7 | 142 |
| As at 31 March 2010 (unaudited) | 3,470 | 365 | 37 | (8) | 3,864 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 31 March 2010

| | Note | The Banking Group | | | The Bank | | |
|---|--------|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Assets | | | | | | | |
| Cash and balances with central banks | | 239 | 320 | 213 | 239 | 320 | 212 |
| Due from other financial institutions | 9 | 3 | 3 | 3 | - | - | - |
| Derivative financial instruments | 27 | 18 | 26 | 22 | 18 | 26 | 22 |
| Trading securities and other financial assets designated at fair value | 10 | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |
| Available-for-sale securities | 11 | 56 | 38 | 37 | 56 | 38 | 37 |
| Loans | 12, 13 | 49,369 | 47,793 | 48,174 | 49,215 | 47,621 | 48,015 |
| Due from related entities | | 842 | 453 | 576 | 8,351 | 8,385 | 8,129 |
| Current tax assets | | - | - | 10 | - | - | 19 |
| Investments in controlled entities | | - | - | - | 281 | 281 | 281 |
| Investment in associate | 26 | 48 | 48 | 48 | - | - | - |
| Goodwill and other intangible assets | 14 | 573 | 572 | 575 | 573 | 572 | 575 |
| Property, plant and equipment | 15 | 104 | 90 | 92 | 11 | 10 | 9 |
| Deferred tax assets | 16 | 240 | 216 | 196 | 224 | 203 | 183 |
| Other assets | 17 | 153 | 157 | 142 | 151 | 154 | 139 |
| Total assets | | 56,254 | 54,368 | 54,509 | 63,728 | 62,262 | 62,042 |
| Liabilities | | | | | | | |
| Deposits at fair value | 18 | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Deposits at amortised cost | 18 | 30,109 | 28,619 | 29,027 | 29,870 | 28,619 | 29,011 |
| Trading liabilities and other financial liabilities designated at fair value | 19 | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Debt issues | 20 | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Current tax liabilities | | 20 | 116 | - | 20 | 112 | - |
| Provisions | 21 | 73 | 69 | 76 | 73 | 69 | 76 |
| Other liabilities | 22 | 470 | 504 | 524 | 425 | 468 | 471 |
| Total liabilities excluding perpetual subordinated notes and due to related entities | | 49,908 | 47,166 | 47,349 | 35,065 | 37,387 | 37,114 |
| Perpetual subordinated notes | 24 | 970 | 970 | 970 | 970 | 970 | 970 |
| Total liabilities excluding due to related entities | | 50,878 | 48,136 | 48,319 | 36,035 | 38,357 | 38,084 |
| Due to related entities | | 1,468 | 2,584 | 2,426 | 23,829 | 20,293 | 20,236 |
| Total liabilities | | 52,346 | 50,720 | 50,745 | 59,864 | 58,650 | 58,320 |
| Net assets | | 3,908 | 3,648 | 3,764 | 3,864 | 3,612 | 3,722 |
| Equity | | | | | | | |
| Share capital | 25 | 3,470 | 3,470 | 3,470 | 3,470 | 3,470 | 3,470 |
| Retained profits | | 404 | 180 | 284 | 365 | 150 | 249 |
| Available-for-sale securities reserve | | 37 | 19 | 18 | 37 | 19 | 18 |
| Cash flow hedge reserve | | (8) | (27) | (15) | (8) | (27) | (15) |
| Total equity attributable to owners of the Banking Group | | 3,903 | 3,642 | 3,757 | 3,864 | 3,612 | 3,722 |
| Non-controlling interests | | 5 | 6 | 7 | - | - | - |
| Total equity | | 3,908 | 3,648 | 3,764 | 3,864 | 3,612 | 3,722 |
| Interest earning and discount bearing assets | | 55,539 | 53,623 | 53,673 | 62,874 | 61,329 | 61,022 |
| Interest and discount bearing liabilities | | 48,158 | 46,554 | 46,224 | 55,685 | 54,505 | 53,767 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the six months ended 31 March 2010

| | The Banking Group | | | The Bank | | |
|---|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Cash flows from operating activities | | | | | | |
| Interest income received | 1,744 | 2,177 | 4,031 | 1,735 | 2,165 | 4,006 |
| Interest expense paid | (1,190) | (1,637) | (2,847) | (1,189) | (1,558) | (2,791) |
| Non-interest income received | 141 | 182 | 356 | 139 | 184 | 356 |
| Net increase in trading securities and other financial assets designated at fair value | (188) | (2,679) | (2,448) | (188) | (2,679) | (2,448) |
| Net (decrease)/increase in trading liabilities and other financial liabilities designated at fair value | (1,885) | 2,297 | 1,885 | (1,885) | 2,297 | 1,885 |
| Operating expenses paid | (300) | (321) | (647) | (305) | (327) | (658) |
| Income tax paid | (59) | (76) | (190) | (57) | (75) | (187) |
| Net cash (used in)/provided by operating activities | (1,737) | (57) | 140 | (1,750) | 7 | 163 |
| Cash flows from investing activities | | | | | | |
| Net loans advanced to customers | (1,402) | (1,314) | (1,999) | (1,397) | (1,320) | (2,010) |
| Net (increase)/decrease in due from related entities | (267) | 1,862 | 1,696 | (212) | (6,114) | (5,842) |
| Net increase in other assets | (1) | (1) | - | (3) | (2) | - |
| Purchase of capitalised computer software | (18) | (15) | (44) | (18) | (15) | (44) |
| Purchase of property, plant and equipment | (22) | (23) | (38) | (5) | (1) | (4) |
| Proceeds from disposal of property, plant and equipment | 1 | - | 5 | 1 | - | 4 |
| Net cash (used in)/provided by investing activities | (1,709) | 509 | (380) | (1,634) | (7,452) | (7,896) |
| Cash flows from financing activities | | | | | | |
| Redemption of preference share capital | - | (1,300) | (1,300) | - | (1,300) | (1,300) |
| Net increase/(decrease) in deposits | 40 | 461 | 268 | (183) | 461 | 252 |
| Net proceeds from debt issues | 4,441 | 390 | 1,267 | 48 | 171 | 621 |
| Net (decrease)/increase in due to related entities | (959) | 334 | 174 | 3,594 | 8,449 | 8,327 |
| Net (decrease)/increase in other liabilities | (47) | (19) | 42 | (48) | (22) | 39 |
| Payment of dividends | (3) | (108) | (108) | - | (104) | (104) |
| Net cash provided by/(used in) financing activities | 3,472 | (242) | 343 | 3,411 | 7,655 | 7,835 |
| Net increase in cash and cash equivalents | 26 | 210 | 103 | 27 | 210 | 102 |
| Cash and cash equivalents at beginning of the period/year | 216 | 113 | 113 | 212 | 110 | 110 |
| Cash and cash equivalents at end of the period/year | 242 | 323 | 216 | 239 | 320 | 212 |
| Cash and cash equivalents comprise: | | | | | | |
| Cash and balances with central banks | 239 | 320 | 213 | 239 | 320 | 212 |
| Due from other financial institutions – at call | 3 | 3 | 3 | - | - | - |
| Cash and cash equivalents at end of the period/year | 242 | 323 | 216 | 239 | 320 | 212 |
| Reconciliation of profit after income tax expense to net cash flows from operating activities | | | | | | |
| Profit after income tax expense | 116 | 162 | 248 | 111 | 205 | 285 |
| <i>Adjustments:</i> | | | | | | |
| Software amortisation costs | 20 | 22 | 45 | 20 | 22 | 45 |
| Impairment charges on intangible assets | - | - | 3 | - | - | 3 |
| Impairment charges on loans | 207 | 316 | 620 | 197 | 316 | 612 |
| Depreciation on property, plant and equipment | 9 | 9 | 20 | 2 | 2 | 4 |
| Gain on disposal of property, plant and equipment | - | - | (3) | - | - | (2) |
| Share-based payments | 1 | 1 | 3 | 1 | 1 | 3 |
| Movement in accrued assets | (10) | 27 | 41 | (9) | 24 | 37 |
| Movement in investments in related entities | - | - | - | - | (43) | (43) |
| Movement in accrued liabilities and provisions | (3) | (171) | (186) | 4 | (96) | (128) |
| Movement in current and deferred tax | (8) | (27) | (137) | (7) | (28) | (143) |
| Tax losses transferred to related entities | - | - | 59 | - | - | 63 |
| Movement in trading securities and other financial assets designated at fair value | (188) | (2,679) | (2,448) | (188) | (2,679) | (2,448) |
| Movement in trading liabilities and other financial liabilities designated at fair value | (1,885) | 2,297 | 1,885 | (1,885) | 2,297 | 1,885 |
| Movement in derivative financial instruments | 4 | (14) | (10) | 4 | (14) | (10) |
| Net cash flows from operating activities | (1,737) | (57) | 140 | (1,750) | 7 | 163 |

The accompanying notes (numbered 1 to 40) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

1.1 General accounting policies

Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993, the Order and the Reserve Bank Act. The Bank's financial statements are for Westpac New Zealand Limited as a separate entity and the consolidated financial statements are for the Westpac New Zealand Limited Group which includes the Bank and its controlled entities.

These financial statements have also been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('**IFRS**').

These financial statements were authorised for issue by the Board on 26 May 2010. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2009.

Certain comparative figures have been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative figures 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 that control ceases.

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

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.

The interests of minority shareholders 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. Any losses applicable to the minority interests in excess of the minority interests are allocated against the interests of the Bank.

Foreign currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the '**functional currency**'). The financial statements of the Bank and the Banking Group are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at balance date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Banking Group have been included in the income statement, except where deferred in equity as qualifying cash flow hedges.

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments, measured at amortised cost or those classified as available-for-sale securities, is recognised in the income statement using the effective interest method. Interest income for instruments measured at fair value through profit or loss is also recognised using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon contractual terms and behavioural aspects of the financial instrument (e.g. prepayment options), but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loans' original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accruals basis over the period during which the service is performed. All fees related to the successful origination or settlement of a loan (together with the related direct costs) are deferred and recognised as an adjustment to the effective interest rate on the loan.

Note 1 Statement of accounting policies (continued)

Gain or loss on sale of property, plant and equipment

A gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the respective asset and is recognised in the income statement as non-interest income.

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method. Interest expense relating to instruments classified as fair value through profit or loss, including trading liabilities, is also recognised using the effective interest method.

Losses on loans and receivables carried at amortised cost

The charge recognised in the income statement for losses on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of losses previously written off.

Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recognised as liabilities and are amortised as a reduction of rental expense over the lease term, on a straight-line basis.

Commissions and other fees

External commissions and other costs paid to acquire mortgage loans through brokers are capitalised and amortised using the effective interest method. All other fees and commissions paid are recognised in the income statement over the period in which the related service is consumed.

Share-based compensation – options, performance share rights and unhurdled share rights

Certain employees hold options, performance share rights and unhurdled share rights granted by the Ultimate Parent Bank.

The fair value of options, performance share rights and unhurdled share rights provided to employees as share-based compensation is recognised as an expense with a corresponding payable to the Ultimate Parent Bank recognised. The fair value is measured at grant date and is recognised over the expected vesting period during which the employees would become entitled to exercise the option, performance share right or unhurdled share right.

The fair value of options, performance share rights and unhurdled share rights is estimated at the grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and performance hurdle features of the grants. The fair value of the options, performance share rights and unhurdled share rights excludes the impact of any non-market vesting conditions such as participants' continued employment with the Banking Group. The non-market vesting conditions are included in assumptions used when determining the number of options, performance share rights and unhurdled share rights expected to become exercisable for which an expense is recognised. As at each balance date these assumptions are revised and the expense recognised each period takes into account the most recent estimates.

Taxation

Income tax

Income tax expense on the profit for the reporting period comprises current tax and movements in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous reporting periods.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill, the initial recognition (other than in a business combination) of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted as at the balance date that are expected to apply when the liability is settled or the asset is realised.

Current and deferred tax attributable to amounts recognised directly in equity are also recognised directly in equity.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the same taxable entity or group of entities in the Banking Group.

Goods and services tax

Revenue, expenses and assets are recognised net of goods and services tax ('**GST**') except to the extent that GST is not recoverable from the Inland Revenue. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity, other transaction costs are recognised as an expense in the income statement when they are incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's assets. The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Banking Group's incremental borrowing rate.

Note 1 Statement of accounting policies (continued)

Assets

Financial assets

The Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

■ **Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

■ **Available-for-sale securities**

Available-for-sale securities are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss or loans.

■ **Loans**

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on trade-date, being the date on which the Banking Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Banking Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the Banking Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Cash and balances with central banks

Cash and balances with central banks include cash at branches, central bank account balances and nostro balances. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

Receivables from other financial institutions include loans and settlement account balances due from other financial institutions. They are accounted for as loans.

Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Derivatives are carried as assets when the fair value is positive.

Trading securities and other financial assets designated at fair value

Trading securities include debt and equity securities which are actively traded and securities purchased under agreement to resell. They are accounted for as financial assets designated at fair value through profit or loss.

Certain bonds, notes and commercial bills are designated at fair value through profit or loss. This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy, or designating it at fair value will reduce an accounting mismatch.

Available-for-sale securities

Available-for-sale securities are public and other debt and equity securities that are not classified as financial assets at fair value through profit or loss. The accounting treatment for available-for-sale securities is set out above.

Loans

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. The accounting treatment for loans is set out above.

Security is obtained if, based on an evaluation of the customer's credit worthiness, it is considered necessary for the customer's overall borrowing facility. Security would normally consist of assets such as cash deposits, receivables, inventory, plant and equipment, real estate and investments.

Note 1 Statement of accounting policies (continued)

Impairment of financial assets

Impaired financial assets include:

- individually impaired assets, which are defined as assets where an individual provision has been raised to cover the expected loss for which full recovery of principal is doubtful; and
- restructured assets, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately as 'past due assets'. Assets that are greater than 90 days past their contractual terms, but not yet impaired are reported separately as '90 days past due assets'.

Assets, not classified as impaired assets or past due assets, in which the counterparty is (a) in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or (b) in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction, are reported separately. These are known as 'other assets under administration'.

The following accounting policy applies to the impairment of financial assets:

i) Assets carried at amortised cost

The Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a '**loss event**') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Banking Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Banking Group would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (a) adverse changes in the payment status of borrowers in the group; or
 - (b) national or local economic conditions that correlate with defaults on the assets in the group.

The Banking Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment charge on loans carried at amortised cost has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Banking Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the Banking Group and historical loss experience for assets with credit risk characteristics similar to those in the Banking Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Banking Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Note 1 Statement of accounting policies (continued)

ii) Assets carried at fair value

The Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Subsequent reversals of impairment charges on equity instruments are not recognised in the income statement.

Due from related entities

This amount includes amounts due from controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

Investments in related entities including associates

Investments in related entities are initially recorded by the Banking Group in the balance sheet at cost. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Investments in related entities are written-down to recoverable amounts, where appropriate.

Associates are all entities over which the Banking Group has significant influence but not control. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Banking Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

Goodwill and other intangible assets

Goodwill represents amounts arising on the acquisition of businesses. Goodwill represents the excess of purchase consideration over the fair value of the Banking Group's share of the identifiable net assets of the business acquired.

All goodwill is considered to have an indefinite useful life.

Goodwill is tested for impairment at least annually and whenever there is an indication that it may be impaired. Goodwill is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash-generating units ('CGU') are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was tested for impairment as at 30 September 2009.

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Other intangible assets comprise acquired and internally developed computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Banking Group. These costs are amortised using the straight-line method to allocate the cost of the asset less any residual value over the estimated useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense, as incurred. Impairment losses are recognised as an operating expense in the income statement.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives as follows:

- | | |
|---------------------------|----------------|
| ■ Leasehold improvements | Up to 10 years |
| ■ Furniture and equipment | 3 – 15 years |

Other assets

Other assets include accrued interest receivable, trade debtors and prepayments.

Impairment of non-financial assets

The carrying amount of the Banking Group's non-financial assets, other than deferred tax assets, are reviewed as at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. With the exception of goodwill, for which impairment losses cannot be reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. Impairment losses and reversals of impairment losses are recognised in the income statement.

The recoverable amount of an asset is the greater of its net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Note 1 Statement of accounting policies (continued)

Liabilities

Financial liabilities

The Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (either designated as such upon initial recognition or those classified as held for trading) and financial liabilities at amortised cost.

■ **Financial liabilities at fair value through profit or loss**

This category has two sub-categories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of identified financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on initial recognition by management. This designation may only be made if the financial liability either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

■ **Financial liabilities at amortised cost**

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition of financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs except where they are designated at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for derivatives and liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged.

Deposits at fair value

Deposits at fair value include interest bearing deposits accounted for at fair value through profit or loss.

Deposits at amortised cost

Deposits at amortised cost include non-interest bearing deposits repayable at call and interest bearing deposits. They are measured at amortised cost.

Derivative financial instruments

Derivative financial instruments, including forwards, futures, swaps and options, are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Derivatives are carried as liabilities when the fair value is negative.

Trading liabilities and other financial liabilities designated at fair value

Securities sold under repurchase agreements and securities sold short are classified as trading liabilities. They are accounted for as financial liabilities designated at fair value through profit or loss.

Debt issues

Debt issues are bonds, notes and commercial paper that have been issued by the Banking Group. They are either accounted for at amortised cost or at fair value through profit or loss. If the liability is accounted for at amortised cost it is initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured using the effective interest method. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch, which arises due to derivatives being executed for risk management purposes.

Other liabilities

Other liabilities include accrued interest payable, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from defined benefit superannuation scheme.

Perpetual subordinated notes

Perpetual subordinated notes are measured at amortised cost and qualify as Upper Tier Two Capital, as defined by the Reserve Bank for capital adequacy purposes.

Due to related entities

This amount includes amounts due to controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date, are recognised in respect of employees' services and are measured at the amounts expected to be paid when the liabilities are settled.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using market yields as at the balance date on government bonds with terms that match as closely as possible to the estimated timing of future cash flows.

Note 1 Statement of accounting policies (continued)

Superannuation obligations

Obligations for contributions to the defined contribution superannuation scheme are recognised as an expense in the income statement as incurred.

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation as at the reporting date less the fair value of the scheme's assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The actuarial valuation of scheme obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of difference between scheme assets and obligations, and the superannuation cost charged to the income statement.

Actuarial gains and losses related to the defined benefit superannuation scheme are recorded directly in retained earnings. A net deficit within the scheme is recognised and disclosed separately in 'Other liabilities' as retirement benefit deficit.

Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for terminations has been developed (and is without realistic possibility of withdrawal) and a valid expectation has been raised in those employees affected that the terminations will be carried out. Liabilities for termination benefits are recognised within other liabilities unless the timing or amount is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the balance date are measured at the estimated cash outflows, discounted using market yields as at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future payments, where the effect of discounting is material.

Provisions

Non-lending losses

Provision is made for non-lending losses including frauds, litigation costs and the correction of operational issues.

Provision for impairment on credit commitments

Provision is made for incurred losses as a result of the commitment to extend credit.

Provision for restructuring

Provision for restructuring is only recognised when a detailed formal plan has been approved and the restructuring has either commenced or been announced publicly. Costs relating to ongoing activities are not provided for.

Equity and reserves

Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

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.

Hedging

The Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss on derivatives depends on the nature of the hedging relationship. Hedging relationships are of two types:

- fair value hedge: a hedge of the change in fair value of recognised assets or liabilities or firm commitments; and
- cash flow hedge: a hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction.

The Banking Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the Banking Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Banking Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

A hedge is regarded as highly effective if, at inception and throughout its life, the Banking Group can expect the hedge to offset changes in fair value or cash flows attributable to the hedged risk and actual results are within a range of 80% to 125% of these changes. 'Hedge ineffectiveness' represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised in the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains until the disposal of the equity security.

Note 1 Statement of accounting policies (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods in which the hedged item affects profit or loss (e.g. when interest income or expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Embedded derivatives

In certain instances a derivative may be embedded in a 'host contract'. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Loan securitisation

The Banking Group, through its loan securitisation programme, may package and sell loans (principally housing mortgage loans) as securities to investors. In such transactions the Banking Group provides an equitable interest in the loans to investors who provide funding to finance them. Securitised loans that do not qualify for derecognition and the associated funding are included in loans and debt issues respectively. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where substantially all the risks and rewards of ownership have been transferred.

Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee, who reports the assets in its balance sheet. In contrast, an operating lease exists where the risks of the leased assets remain with the lessor.

In its capacity as a lessor, the Banking Group primarily offers finance leases. The Banking Group recognises the assets held under finance leases in the balance sheet as receivables at an amount equal to the net investment in the leases. The recognition of finance income is based on a pattern reflecting a constant periodic return on the Banking Group's net investment in the finance leases. Finance lease income is included within net interest income in the income statement.

In its capacity as a lessee, the Banking Group will mainly lease property, plant and equipment under operating leases. Payments due to the lessor under operating leases are charged to equipment and occupancy expense on a straight-line basis over the term of the lease.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Banking Group has determined that the Banking Group executive team is its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with NZ IFRS 8 *Operating Segments*, the Banking Group has the following business segments:

- Business Banking; and
- Consumer Banking.

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with New Zealand International Accounting Standard ('NZ IAS') 7 *Statement of Cash Flows* with netting of certain items as disclosed below.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the Banking Group, which are readily convertible at the investor's or customer's option and include the interbank balances arising from the daily Reserve Bank settlement process.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than the Banking Group.

Note 1 Statement of accounting policies (continued)

1.3 Changes in accounting policies

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2009 the following standards, interpretations and amendments have been adopted with effect from 1 October 2009 in the preparation of these financial statements:

- NZ IFRS 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* – The main changes under these standards which apply prospectively to business combinations are that:
 - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
 - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however, remeasurement in the future will be recognised in the income statement;
 - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
 - while control is retained, transactions with minority interests are treated as equity transactions.
- NZ IFRS 7 *Financial Instruments: Disclosures* – The amendments require additional disclosures on fair value and liquidity risk.
- NZ IFRS 8 *Operating Segments* – Further aligns external operating segment reporting with internal reporting to key management personnel.
- NZ IAS 1 *Presentation of Financial Statements* (revised) – The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1 – The amendments require some puttable financial instruments and some financial instruments, which impose on the entity an obligation to deliver to another party a pro rata share of the net assets on liquidation, to be classified as equity.
- NZ IAS 36 *Impairment of Assets* – The amendment requires recognition of dividends together with other evidence as indicators of impairment.

1.4 Future accounting developments

The following new standards, interpretations and amendments have been issued, but are not yet effective and have not been early adopted by the Banking Group:

- NZ IFRS 9 *Financial Instruments: Classification and Measurement* - If this standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:
 - NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
 - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
 - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
 - there will be no bifurcation of an embedded derivative where the host is a financial asset;
 - equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on a equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however dividends from such investments will continue to be recognised in profit and loss; and
 - if an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of the tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.
- NZ IFRS 2 *Share-based Payment – Amendment: Group Cash-settled Share-based Payment Transactions* was issued in August 2009 and is applicable to the Banking Group in the 2011 financial year. The amendments clarify the scope of NZ IFRS 2 *Share-based Payment* by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. It is not expected to have a material impact on the Banking Group.
- NZ IAS 1 *Presentation of Financial Statements* – The amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification.
- NZ IAS 7 *Statement of Cash Flows* – Amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities.
- NZ IAS 17 *Leases* – The amendment to the standard was issued in April 2009 and is applicable to the Banking Group in the 2011 financial year. The amendment has removed specific guidance on classifying land as a lease.
- NZ IAS 24 *Related Party Disclosures* – The revised standard was approved in November 2009 and is applicable to the Banking Group in the 2012 financial year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning.
- NZ IAS 32 *Financial Instruments: Presentation* – Amendments to the standard were issued in October 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify the classification of rights issues.

Note 1 Statement of accounting policies (continued)

1.5 Critical accounting estimates, judgement and assumptions

The application of the Banking Group's accounting policies necessarily requires the use of estimates, judgement and assumptions. Should different estimates, judgements or assumptions be applied, the resulting values would change, impacting the net assets and income of the Bank and the Banking Group.

Management has discussed the accounting policies which are sensitive to the use of estimates, judgement and assumptions with the Board Audit Committee.

Critical accounting estimates

The nature of estimates and assumptions used and the value of the resulting asset and liability balances are included in the policies below.

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation technique, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable any day-one profit or loss is amortised over the life of the transaction.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 28.

A negligible proportion of the Banking Group's trading derivatives are valued directly from quoted prices, the majority being valued using appropriate valuation techniques, using observable market inputs. The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices or inputs.

Provisions for impairment charges on loans

The Banking Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's effective interest rate. Provisions for loan impairment losses represent management's estimate of the losses incurred in the loan portfolios as at balance date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of the impairment charge on loans.

The provisions for impairment charges on loans are disclosed in Notes 12 and 13 whilst the provision for impairment on credit commitments is disclosed in Note 21.

There are two components to the Banking Group's loan impairment provisions, individual and collective, as follows:

- (a) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Banking Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgements can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.
- (b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred, but have not been separately identified as at the balance date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence period. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

Note 1 Statement of accounting policies (continued)

Goodwill

Goodwill represents the excess of purchase consideration, over the fair value of the Bank and Banking Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually.

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgement. Different fair values would result in changes to goodwill and to the post-acquisition performance of the acquisition.

To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value-in-use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable and willing parties. The assumptions applied to determine impairment along with the carrying amount of goodwill, are outlined in Note 14.

Superannuation obligations

The Banking Group operates a defined benefit superannuation scheme. For this scheme, actuarial valuations of the scheme's obligations and the fair value measurements of the scheme's assets are performed annually in accordance with the requirements of NZ IAS 19 *Employee Benefits*.

The actuarial valuation of scheme obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between scheme assets and obligations, and the superannuation cost charged to the income statement. The carrying amount of superannuation defined benefit obligation is disclosed in Note 31.

Provisions (other than loan impairment losses)

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and non-lending losses as disclosed in Note 21. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

Critical accounting judgements

The judgements, apart from those involving estimations, that management has made in applying the Banking Group's accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as follows:

Income taxes

The Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Banking Group estimates its tax liabilities based on the Banking Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences impact the current and deferred tax provisions in the period when such determinations are made.

Securitisation and the consolidation of special purpose vehicles

The Banking Group sponsors the formation of special purpose vehicles ('SPV') in the ordinary course of business, primarily to provide funding and financial services products to its customers. SPVs are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under NZ GAAP, an SPV is consolidated and reported as part of the Banking Group if it is controlled by the parent entity in line with NZ IAS 27 *Consolidated and Separate Financial Statements* or deemed to be controlled in applying NZ SIC 12 *Consolidation – Special Purpose Entities*. The definition of control is based on the substance rather than the legal form. As it can sometimes be difficult to determine whether the Banking Group controls an SPV, management makes judgements about the Banking Group's exposure to the associated risks and rewards, as well as its ability to make operational decisions for the SPV.

Note 2 Net interest income

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Interest income | | | | | | |
| Loans | 1,659 | 2,046 | 3,798 | 1,649 | 2,034 | 3,774 |
| Deposits with central bank | 2 | 7 | 13 | 2 | 7 | 13 |
| Impaired assets | 18 | 15 | 29 | 18 | 15 | 29 |
| Trading securities and other financial assets designated at fair value | 63 | 77 | 148 | 63 | 77 | 148 |
| Total interest income¹ | 1,742 | 2,145 | 3,988 | 1,732 | 2,133 | 3,964 |
| Interest expense | | | | | | |
| Current and term deposits | 537 | 869 | 1,439 | 534 | 869 | 1,438 |
| Debt issues | 175 | 207 | 344 | 88 | 63 | 119 |
| Related entities | 425 | 333 | 783 | 525 | 474 | 1,015 |
| Trading liabilities and other financial liabilities designated at fair value | 23 | 33 | 83 | 23 | 33 | 83 |
| Other | 13 | 3 | 23 | 12 | 3 | 17 |
| Total interest expense² | 1,173 | 1,445 | 2,672 | 1,182 | 1,442 | 2,672 |
| Net interest income | 569 | 700 | 1,316 | 550 | 691 | 1,292 |

1 Total interest income for financial assets that are not at fair value through profit or loss is \$1,679 million (31 March 2009: \$2,068 million, 30 September 2009: \$3,840 million) for the Banking Group and \$1,669 million (31 March 2009: \$2,056 million, 30 September 2009: \$3,816 million) for the Bank.

2 Total interest expense for financial liabilities that are not at fair value through profit or loss is \$1,020 million (31 March 2009: \$1,088 million, 30 September 2009: \$2,201 million) for the Banking Group and \$1,116 million (31 March 2009: \$1,260 million, 30 September 2009: \$2,370 million) for the Bank.

Note 3 Non-interest income

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Fees and commissions | | | | | | |
| Transaction fees and commissions | 101 | 112 | 223 | 99 | 109 | 218 |
| Lending fees (loan and risk) | 23 | 43 | 87 | 22 | 43 | 86 |
| Management fees received from related entities | 1 | 1 | 3 | 3 | 3 | 5 |
| Insurance commissions received | 9 | 8 | 17 | 9 | 8 | 17 |
| Other non-risk fee income | 10 | 11 | 16 | 10 | 10 | 15 |
| Total fees and commissions | 144 | 175 | 346 | 143 | 173 | 341 |
| Gains on ineffective hedges | 7 | 2 | 1 | 7 | 2 | 1 |
| Other non-interest income | | | | | | |
| Net unrealised (losses)/gains on derivatives held for risk management purposes | (6) | 5 | 9 | (6) | 5 | 9 |
| Dividend income | - | - | 2 | - | 50 | 50 |
| Gains on disposal of property, plant and equipment | - | - | 3 | - | - | 2 |
| Other | 1 | 3 | 2 | - | - | 1 |
| Total other non-interest income | (5) | 8 | 16 | (6) | 55 | 62 |
| Total non-interest income | 146 | 185 | 363 | 144 | 230 | 404 |

Comparative numbers for insurance commissions and other non-risk fee income have been reclassified as a result of continuing analysis of the Banking Group and the Bank's non-interest income.

Notes to the financial statements

Note 4 Operating expenses

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Salaries and other staff expenses | | | | | | |
| Salaries and wages | 152 | 151 | 298 | 152 | 151 | 298 |
| Employee entitlements | 2 | 4 | 10 | 2 | 4 | 10 |
| Superannuation costs: | | | | | | |
| Defined contribution scheme | 12 | 11 | 20 | 12 | 11 | 20 |
| Defined benefit scheme | - | - | 1 | - | - | 1 |
| Share-based payments | 1 | 1 | 3 | 1 | 1 | 3 |
| Restructuring costs | 1 | 1 | 1 | 1 | 1 | 1 |
| Other | 5 | 5 | 12 | 5 | 4 | 11 |
| Total salaries and other staff expenses | 173 | 173 | 345 | 173 | 172 | 344 |
| Equipment and occupancy expenses | | | | | | |
| Operating lease rentals: | | | | | | |
| Related entities | - | - | - | 40 | 36 | 81 |
| Other | 30 | 25 | 54 | 5 | 3 | 6 |
| Depreciation: | | | | | | |
| Leasehold improvements | 4 | 4 | 9 | 1 | - | - |
| Furniture and equipment | 5 | 5 | 11 | 1 | 2 | 4 |
| Equipment repairs and maintenance | 6 | 3 | 8 | 2 | 1 | 4 |
| Electricity, water and rates | 1 | 1 | 3 | - | - | - |
| Other | 1 | 4 | 12 | - | - | 5 |
| Total equipment and occupancy expenses | 47 | 42 | 97 | 49 | 42 | 100 |
| Other expenses | | | | | | |
| Impairment charges on other intangible assets | - | - | 3 | - | - | 3 |
| Software amortisation costs | 20 | 22 | 45 | 20 | 22 | 45 |
| Non-lending losses | 1 | 1 | 2 | 1 | 1 | 2 |
| Consultancy fees and other professional services | 26 | 27 | 55 | 25 | 26 | 53 |
| Auditors' remuneration (refer to Note 5) | 1 | 1 | 1 | 1 | 1 | 1 |
| Stationery | 5 | 6 | 11 | 5 | 5 | 10 |
| Postage and freight | 8 | 8 | 16 | 7 | 8 | 15 |
| Advertising | 12 | 12 | 25 | 12 | 12 | 25 |
| Training | 3 | 2 | 6 | 3 | 2 | 6 |
| Travel | 4 | 3 | 6 | 4 | 3 | 6 |
| Outsourcing | 42 | 40 | 78 | 42 | 40 | 78 |
| Related entities – management fees | (7) | - | 4 | (7) | - | - |
| Other | 6 | 4 | 14 | 3 | 3 | 13 |
| Total other expenses | 121 | 126 | 266 | 116 | 123 | 257 |
| Total operating expenses | 341 | 341 | 708 | 338 | 337 | 701 |

The Banking Group made donations of \$58,000 during the six months ended 31 March 2010 (31 March 2009: \$43,000, 30 September 2009: \$75,000).

Note 5 Auditors' remuneration

| | The Banking Group | | | The Bank | | |
|--|---|---|---|---|---|---|
| | Six Months Ended 31 March 2010 Unaudited \$'000 | Six Months Ended 31 March 2009 Unaudited \$'000 | Year Ended 30 September 2009 Audited \$'000 | Six Months Ended 31 March 2010 Unaudited \$'000 | Six Months Ended 31 March 2009 Unaudited \$'000 | Year Ended 30 September 2009 Audited \$'000 |
| Auditor of the parent entity | | | | | | |
| Audit and review of financial report | 322 | 271 | 1,029 | 289 | 244 | 815 |
| Other audit related work | 11 | 7 | 138 | 11 | 7 | 138 |
| Total audit and other assurance services | 333 | 278 | 1,167 | 300 | 251 | 953 |
| Taxation | 20 | 19 | 19 | 20 | 19 | 19 |
| Other services | 96 | 27 | 43 | 47 | - | - |
| Total non-audit fees | 116 | 46 | 62 | 67 | 19 | 19 |
| Total remuneration for audit and non-audit services | 449 | 324 | 1,229 | 367 | 270 | 972 |

It is the Banking Group's policy to engage the external auditors on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with the Banking Group is important.

As described above, these assignments relate principally to audit related services (Sarbanes-Oxley reporting to the Ultimate Parent Bank Group), other assurance services (assurance provided on certain financial information) and taxation compliance and advice services.

All amounts disclosed above are GST exclusive.

Note 6 Impairment charges on loans

| | The Banking Group | | | | The Bank | | | |
|---|--|---------------------------------------|---------------------------------|------------|--|---------------------------------------|---------------------------------|------------|
| | Six Months Ended 31 March 2010 – Unaudited | | | | Six Months Ended 31 March 2010 – Unaudited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Collectively assessed provisions | 33 | 49 | 3 | 85 | 25 | 47 | 3 | 75 |
| Individually assessed provisions | 42 | - | 63 | 105 | 42 | - | 63 | 105 |
| Bad debt write-off direct to the income statement | 5 | 27 | 5 | 37 | 5 | 27 | 5 | 37 |
| Interest adjustments | (2) | (7) | (11) | (20) | (2) | (7) | (11) | (20) |
| Total impairment charges on loans | 78 | 69 | 60 | 207 | 70 | 67 | 60 | 197 |

| | The Banking Group | | | | The Bank | | | |
|---|--|---------------------------------------|---------------------------------|------------|--|---------------------------------------|---------------------------------|------------|
| | Six Months Ended 31 March 2009 – Unaudited | | | | Six Months Ended 31 March 2009 – Unaudited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Collectively assessed provisions | 11 | 1 | 88 | 100 | 11 | 2 | 88 | 101 |
| Individually assessed provisions | 38 | - | 156 | 194 | 38 | - | 156 | 194 |
| Bad debt write-off direct to the income statement | 2 | 29 | 1 | 32 | 2 | 28 | 1 | 31 |
| Interest adjustments | (1) | (2) | (7) | (10) | (1) | (2) | (7) | (10) |
| Total impairment charges on loans | 50 | 28 | 238 | 316 | 50 | 28 | 238 | 316 |

| | The Banking Group | | | | The Bank | | | |
|---|--|---------------------------------------|---------------------------------|------------|--|---------------------------------------|---------------------------------|------------|
| | Year Ended 30 September 2009 – Audited | | | | Year Ended 30 September 2009 – Audited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Collectively assessed provisions | 12 | (1) | 137 | 148 | 7 | - | 137 | 144 |
| Individually assessed provisions | 86 | - | 327 | 413 | 86 | - | 327 | 413 |
| Bad debt write-off direct to the income statement | 7 | 73 | 8 | 88 | 7 | 69 | 8 | 84 |
| Interest adjustments | (3) | (10) | (16) | (29) | (3) | (10) | (16) | (29) |
| Total impairment charges on loans | 102 | 62 | 456 | 620 | 97 | 59 | 456 | 612 |

Notes to the financial statements

Note 7 Income tax expense

| | The Banking Group | | | The Bank | | |
|---|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Income tax expense | | | | | | |
| Current tax: | | | | | | |
| Current period/year | 95 | 144 | 173 | 91 | 140 | 167 |
| Prior period/year | 3 | - | - | 3 | 1 | - |
| Deferred tax (refer to Note 16): | | | | | | |
| Current period/year | (44) | (75) | (68) | (43) | (75) | (67) |
| Prior period/year | (3) | (3) | (2) | (3) | (3) | (2) |
| Total income tax expense | 51 | 66 | 103 | 48 | 63 | 98 |
| Profit before income tax expense | 167 | 228 | 351 | 159 | 268 | 383 |
| Tax calculated at tax rate of 30% | 50 | 68 | 105 | 48 | 80 | 115 |
| Income not subject to tax | - | - | (1) | - | (15) | (16) |
| Prior period/year adjustments | - | (2) | (2) | - | (2) | (2) |
| Other items | 1 | - | 1 | - | - | 1 |
| Total income tax expense | 51 | 66 | 103 | 48 | 63 | 98 |

The balance of the dividend withholding payment account as at 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil) and there was no movement during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Note 8 Imputation credit account

| | The Banking Group | | | The Bank | | |
|---|--|--|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
| Balance at beginning of the period/year | 276 | 171 | 171 | 258 | 132 | 132 |
| Transfers | (33) | 67 | 67 | (27) | 66 | 65 |
| Imputation credits attached to dividends received | - | - | 1 | - | - | 25 |
| Imputation credits attached to dividends paid | (4) | (134) | (134) | - | (110) | (133) |
| Income tax payments | 59 | 76 | 171 | 57 | 75 | 169 |
| Balance at end of the period/year | 298 | 180 | 276 | 288 | 163 | 258 |

The availability of these imputation credits is contingent on the Ultimate Parent Bank Group meeting the shareholder continuity rules. As a result of the merger with St. George Bank Limited and its subsidiaries during the year ended 30 September 2009, it is possible that credits of approximately \$100 million for the Banking Group (including \$94 million for the Bank) have been forfeited. The Ultimate Parent Bank Group is currently in discussions with the New Zealand Commissioner of Inland Revenue concerning this issue. If the credits are forfeited there should be no financial impact on either the Banking Group or the Ultimate Parent Bank Group.

Note 9 Due from other financial institutions

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Loans and advances to other banks | 3 | 3 | 3 | - | - | - |
| Total due from other financial institutions | 3 | 3 | 3 | - | - | - |
| Due from other financial institutions: | | | | | | |
| At call | 3 | 3 | 3 | - | - | - |
| Total due from other financial institutions | 3 | 3 | 3 | - | - | - |
| Due within 12 months | 3 | 3 | 3 | - | - | - |
| Due after 12 months | - | - | - | - | - | - |
| Total due from other financial institutions | 3 | 3 | 3 | - | - | - |

Note 10 Trading securities and other financial assets designated at fair value

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Trading securities | | | | | | |
| Listed: | | | | | | |
| NZ Government securities | 2,432 | 2,321 | 2,369 | 2,432 | 2,321 | 2,369 |
| Total listed securities | 2,432 | 2,321 | 2,369 | 2,432 | 2,321 | 2,369 |
| Unlisted: | | | | | | |
| NZ corporate securities: | | | | | | |
| Certificates of deposit | 2,177 | 2,331 | 2,052 | 2,177 | 2,331 | 2,052 |
| Total unlisted securities | 2,177 | 2,331 | 2,052 | 2,177 | 2,331 | 2,052 |
| Total trading securities and other financial assets designated at fair value | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |
| Due within 12 months | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |
| Due after 12 months | - | - | - | - | - | - |
| Total trading securities and other financial assets designated at fair value | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |

As at 31 March 2010 no trading securities in the Banking Group and the Bank (31 March 2009: \$200 million, 30 September 2009: nil) were encumbered through repurchase agreements.

Note 11 Available-for-sale securities

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Listed securities | | | | | | |
| Overseas public securities | 56 | 38 | 37 | 56 | 38 | 37 |
| Total available-for-sale securities | 56 | 38 | 37 | 56 | 38 | 37 |
| Due within 12 months | 56 | - | - | 56 | - | - |
| Due after 12 months | - | 38 | 37 | - | 38 | 37 |
| Total available-for-sale securities | 56 | 38 | 37 | 56 | 38 | 37 |
| Balance at beginning of the period/year | 37 | 35 | 35 | 37 | 35 | 35 |
| Net unrealised gains from changes in fair value | 19 | 3 | 2 | 19 | 3 | 2 |
| Balance at end of the period/year | 56 | 38 | 37 | 56 | 38 | 37 |

As at 31 March 2010 no available-for-sale securities were pledged as collateral for Banking Group liabilities (31 March 2009: nil, 30 September 2009: nil).

Note 12 Loans

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Overdrafts | 986 | 1,128 | 1,056 | 986 | 1,128 | 1,056 |
| Credit card outstandings | 1,225 | 1,165 | 1,182 | 1,153 | 1,093 | 1,113 |
| Money market loans | 652 | 626 | 574 | 652 | 626 | 574 |
| Term loans: | | | | | | |
| Housing | 33,616 | 32,268 | 32,587 | 33,530 | 32,165 | 32,494 |
| Non-housing | 13,278 | 12,967 | 12,985 | 13,278 | 12,967 | 12,985 |
| Other | 284 | 198 | 310 | 283 | 198 | 310 |
| Total gross loans | 50,041 | 48,352 | 48,694 | 49,882 | 48,177 | 48,532 |
| Provisions for impairment charges on loans | (672) | (559) | (520) | (667) | (556) | (517) |
| Total net loans | 49,369 | 47,793 | 48,174 | 49,215 | 47,621 | 48,015 |
| Due within 12 months | 6,655 | 6,800 | 6,936 | 6,583 | 6,626 | 6,924 |
| Due after 12 months | 42,714 | 40,993 | 41,238 | 42,632 | 40,995 | 41,091 |
| Total net loans | 49,369 | 47,793 | 48,174 | 49,215 | 47,621 | 48,015 |

The repurchase cash amount of the Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities as at 31 March 2010 was nil (31 March 2009: \$2,064 million, 30 September 2009: \$1,814 million) with no underlying securities (31 March 2009: \$2,559 million, 30 September 2009: \$2,253 million) provided under the arrangement.

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 13.

Note 13 Credit quality, impaired assets and provisions for impairment charges

| | The Banking Group | | | | The Bank | | | |
|---|--|--|------------------------------------|---------------|--|--|------------------------------------|---------------|
| | Six Months Ended 31 March 2010 – Unaudited | | | | Six Months Ended 31 March 2010 – Unaudited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Neither past due nor impaired | | | | | | | | |
| Strong | - | - | 2,285 | 2,285 | - | - | 2,285 | 2,285 |
| Good/Satisfactory | 32,161 | 1,470 | 9,508 | 43,139 | 32,075 | 1,407 | 9,506 | 42,988 |
| Weak | - | - | 1,857 | 1,857 | - | - | 1,857 | 1,857 |
| Total neither past due nor impaired | 32,161 | 1,470 | 13,650 | 47,281 | 32,075 | 1,407 | 13,648 | 47,130 |
| Past due assets 1 to 89 days¹ | | | | | | | | |
| Balance at beginning of the period | 850 | 131 | 422 | 1,403 | 850 | 124 | 422 | 1,396 |
| Additions | 2,855 | 431 | 1,512 | 4,798 | 2,855 | 407 | 1,512 | 4,774 |
| Deletions | (2,696) | (421) | (1,366) | (4,483) | (2,696) | (397) | (1,366) | (4,459) |
| Balance at end of the period | 1,009 | 141 | 568 | 1,718 | 1,009 | 134 | 568 | 1,711 |
| Past due assets 90+ days¹ | | | | | | | | |
| Balance at beginning of the period | 88 | 26 | 232 | 346 | 88 | 25 | 232 | 345 |
| Additions | 137 | 41 | 170 | 348 | 137 | 39 | 170 | 346 |
| Deletions | (139) | (40) | (203) | (382) | (139) | (39) | (202) | (380) |
| Balance at end of the period | 86 | 27 | 199 | 312 | 86 | 25 | 200 | 311 |
| Total past due assets | 1,095 | 168 | 767 | 2,030 | 1,095 | 159 | 768 | 2,022 |
| Individually impaired assets | | | | | | | | |
| Balance at beginning of the period | 351 | - | 319 | 670 | 351 | - | 319 | 670 |
| Additions | 198 | - | 265 | 463 | 198 | - | 265 | 463 |
| Amounts written off | (38) | - | (16) | (54) | (38) | - | (16) | (54) |
| Returned to performing or repaid | (151) | - | (198) | (349) | (151) | - | (198) | (349) |
| Balance at end of the period | 360 | - | 370 | 730 | 360 | - | 370 | 730 |
| Restructured assets | | | | | | | | |
| Balance at beginning of the period | - | - | 1 | 1 | - | - | 1 | 1 |
| Additions | - | - | - | - | - | - | - | - |
| Deletions | - | - | (1) | (1) | - | - | (1) | (1) |
| Balance at end of the period | - | - | - | - | - | - | - | - |
| Total impaired assets | 360 | - | 370 | 730 | 360 | - | 370 | 730 |
| Total gross loans^{2, 3} | 33,616 | 1,638 | 14,787 | 50,041 | 33,530 | 1,566 | 14,786 | 49,882 |
| Individually assessed provisions | | | | | | | | |
| Balance at beginning of the period | 66 | - | 84 | 150 | 66 | - | 84 | 150 |
| Impairment charges on loans: | | | | | | | | |
| New provisions | 57 | - | 67 | 124 | 57 | - | 67 | 124 |
| Recoveries | (15) | - | (4) | (19) | (15) | - | (4) | (19) |
| Impairment charges on loans written off | (30) | - | (9) | (39) | (30) | - | (9) | (39) |
| Balance at end of the period | 78 | - | 138 | 216 | 78 | - | 138 | 216 |
| Collectively assessed provisions | | | | | | | | |
| Balance at beginning of the period | 42 | 60 | 303 | 405 | 42 | 57 | 303 | 402 |
| Impairment charges on loans | 33 | 49 | 3 | 85 | 25 | 47 | 3 | 75 |
| Provisions on securitised loans | - | - | - | - | 8 | - | - | 8 |
| Balance at end of the period | 75 | 109 | 306 | 490 | 75 | 104 | 306 | 485 |
| Total provision for impairment charges and credit commitments | 153 | 109 | 444 | 706 | 153 | 104 | 444 | 701 |
| Less provision for credit commitments (refer to Note 21) | - | - | (34) | (34) | - | - | (34) | (34) |
| Total impairment provisions | 153 | 109 | 410 | 672 | 153 | 104 | 410 | 667 |
| Total net loans | 33,463 | 1,529 | 14,377 | 49,369 | 33,377 | 1,462 | 14,376 | 49,215 |

1 Past due assets are not impaired assets.

2 The Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

3 The Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Note 13 Credit quality, impaired assets and provisions for impairment charges (continued)

| | The Banking Group | | | | The Bank | | | |
|---|--|---|--|---------------|--|---|--|---------------|
| | Six Months Ended 31 March 2009 – Unaudited | | | | Six Months Ended 31 March 2009 – Unaudited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Neither past due nor impaired | | | | | | | | |
| Strong | - | - | 1,735 | 1,735 | - | - | 1,735 | 1,735 |
| Good/Satisfactory | 30,594 | 1,454 | 11,011 | 43,059 | 30,491 | 1,393 | 11,011 | 42,895 |
| Weak | - | - | 561 | 561 | - | - | 561 | 561 |
| Total neither past due nor impaired | 30,594 | 1,454 | 13,307 | 45,355 | 30,491 | 1,393 | 13,307 | 45,191 |
| Past due assets 1 to 89 days¹ | | | | | | | | |
| Balance at beginning of the period | 1,394 | 156 | 589 | 2,139 | 1,394 | 150 | 589 | 2,133 |
| Additions | 3,802 | 459 | 2,009 | 6,270 | 3,802 | 431 | 2,009 | 6,242 |
| Deletions | (3,960) | (462) | (2,049) | (6,471) | (3,960) | (437) | (2,049) | (6,446) |
| Balance at end of the period | 1,236 | 153 | 549 | 1,938 | 1,236 | 144 | 549 | 1,929 |
| Past due assets 90+ days¹ | | | | | | | | |
| Balance at beginning of the period | 75 | 25 | 121 | 221 | 75 | 24 | 121 | 220 |
| Additions | 200 | 48 | 256 | 504 | 200 | 43 | 256 | 499 |
| Deletions | (157) | (42) | (177) | (376) | (157) | (38) | (177) | (372) |
| Balance at end of the period | 118 | 31 | 200 | 349 | 118 | 29 | 200 | 347 |
| Total past due assets | 1,354 | 184 | 749 | 2,287 | 1,354 | 173 | 749 | 2,276 |
| Individually impaired assets | | | | | | | | |
| Balance at beginning of the period | 190 | - | 88 | 278 | 190 | - | 88 | 278 |
| Additions | 234 | - | 335 | 569 | 234 | - | 335 | 569 |
| Amounts written off | (15) | - | (31) | (46) | (15) | - | (31) | (46) |
| Returned to performing or repaid | (89) | - | (2) | (91) | (89) | - | (2) | (91) |
| Balance at end of the period | 320 | - | 390 | 710 | 320 | - | 390 | 710 |
| Restructured assets | | | | | | | | |
| Balance at beginning of the period | - | - | - | - | - | - | - | - |
| Additions | - | - | - | - | - | - | - | - |
| Deletions | - | - | - | - | - | - | - | - |
| Balance at end of the period | - | - | - | - | - | - | - | - |
| Total impaired assets | 320 | - | 390 | 710 | 320 | - | 390 | 710 |
| Total gross loans^{2, 3} | 32,268 | 1,638 | 14,446 | 48,352 | 32,165 | 1,566 | 14,446 | 48,177 |
| Individually assessed provisions | | | | | | | | |
| Balance at beginning of the period | 24 | - | 41 | 65 | 24 | - | 41 | 65 |
| Impairment charges on loans: | | | | | | | | |
| New provisions | 44 | - | 158 | 202 | 44 | - | 158 | 202 |
| Recoveries | (6) | - | (2) | (8) | (6) | - | (2) | (8) |
| Impairment charges on loans written off | (2) | - | (23) | (25) | (2) | - | (23) | (25) |
| Balance at end of the period | 60 | - | 174 | 234 | 60 | - | 174 | 234 |
| Collectively assessed provisions | | | | | | | | |
| Balance at beginning of the period | 30 | 61 | 166 | 257 | 30 | 57 | 166 | 253 |
| Impairment charges on loans | 11 | 1 | 88 | 100 | 11 | 2 | 88 | 101 |
| Balance at end of the period | 41 | 62 | 254 | 357 | 41 | 59 | 254 | 354 |
| Total provision for impairment charges and credit commitments | 101 | 62 | 428 | 591 | 101 | 59 | 428 | 588 |
| Less provision for credit commitments (refer to Note 21) | - | - | (32) | (32) | - | - | (32) | (32) |
| Total impairment provisions | 101 | 62 | 396 | 559 | 101 | 59 | 396 | 556 |
| Total net loans | 32,167 | 1,576 | 14,050 | 47,793 | 32,064 | 1,507 | 14,050 | 47,621 |

¹ Past due assets are not impaired assets.

² The Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

³ The Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Notes to the financial statements

Note 13 Credit quality, impaired assets and provisions for impairment charges (continued)

| | The Banking Group | | | | The Bank | | | |
|---|--|--|------------------------------------|---------------|--|--|------------------------------------|---------------|
| | Year Ended 30 September 2009 – Audited | | | | Year Ended 30 September 2009 – Audited | | | |
| | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m | Residential Mortgages \$m | Other Loans for Consumer Purposes \$m | Loans for Business Purposes \$m | Total \$m |
| Neither past due nor impaired | | | | | | | | |
| Strong | - | - | 2,402 | 2,402 | - | - | 2,402 | 2,402 |
| Good/Satisfactory | 31,298 | 1,487 | 9,178 | 41,963 | 31,205 | 1,426 | 9,178 | 41,809 |
| Weak | - | - | 1,909 | 1,909 | - | - | 1,909 | 1,909 |
| Total neither past due nor impaired | 31,298 | 1,487 | 13,489 | 46,274 | 31,205 | 1,426 | 13,489 | 46,120 |
| Past due assets 1 to 89 days¹ | | | | | | | | |
| Balance at beginning of the year | 1,394 | 156 | 589 | 2,139 | 1,394 | 150 | 589 | 2,133 |
| Additions | 6,947 | 865 | 3,704 | 11,516 | 6,947 | 819 | 3,704 | 11,470 |
| Deletions | (7,491) | (890) | (3,871) | (12,252) | (7,491) | (845) | (3,871) | (12,207) |
| Balance at end of the year | 850 | 131 | 422 | 1,403 | 850 | 124 | 422 | 1,396 |
| Past due assets 90+ days¹ | | | | | | | | |
| Balance at beginning of the year | 75 | 25 | 121 | 221 | 75 | 24 | 121 | 220 |
| Additions | 361 | 94 | 560 | 1,015 | 361 | 89 | 560 | 1,010 |
| Deletions | (348) | (93) | (449) | (890) | (348) | (88) | (449) | (885) |
| Balance at end of the year | 88 | 26 | 232 | 346 | 88 | 25 | 232 | 345 |
| Total past due assets | 938 | 157 | 654 | 1,749 | 938 | 149 | 654 | 1,741 |
| Individually impaired assets | | | | | | | | |
| Balance at beginning of the year | 190 | - | 88 | 278 | 190 | - | 88 | 278 |
| Additions | 486 | - | 601 | 1,087 | 486 | - | 601 | 1,087 |
| Amounts written off | (64) | - | (290) | (354) | (64) | - | (290) | (354) |
| Returned to performing or repaid | (261) | - | (80) | (341) | (261) | - | (80) | (341) |
| Balance at end of the year | 351 | - | 319 | 670 | 351 | - | 319 | 670 |
| Restructured assets | | | | | | | | |
| Balance at beginning of the year | - | - | - | - | - | - | - | - |
| Additions | - | - | 1 | 1 | - | - | 1 | 1 |
| Deletions | - | - | - | - | - | - | - | - |
| Balance at end of the year | - | - | 1 | 1 | - | - | 1 | 1 |
| Total impaired assets | 351 | - | 320 | 671 | 351 | - | 320 | 671 |
| Total gross loans^{2, 3} | 32,587 | 1,644 | 14,463 | 48,694 | 32,494 | 1,575 | 14,463 | 48,532 |
| Individually assessed provisions | | | | | | | | |
| Balance at beginning of the year | 24 | - | 41 | 65 | 24 | - | 41 | 65 |
| Impairment charges on loans: | | | | | | | | |
| New provisions | 102 | - | 332 | 434 | 102 | - | 332 | 434 |
| Recoveries | (16) | - | (5) | (21) | (16) | - | (5) | (21) |
| Impairment charges on loans written off | (44) | - | (284) | (328) | (44) | - | (284) | (328) |
| Balance at end of the year | 66 | - | 84 | 150 | 66 | - | 84 | 150 |
| Collectively assessed provisions | | | | | | | | |
| Balance at beginning of the year | 30 | 61 | 166 | 257 | 30 | 57 | 166 | 253 |
| Impairment charges on loans | 12 | (1) | 137 | 148 | 7 | - | 137 | 144 |
| Provisions on securitised loans | - | - | - | - | 5 | - | - | 5 |
| Balance at end of the year | 42 | 60 | 303 | 405 | 42 | 57 | 303 | 402 |
| Total provision for impairment charges and credit commitments | 108 | 60 | 387 | 555 | 108 | 57 | 387 | 552 |
| Less provision for credit commitments (refer to Note 21) | - | - | (35) | (35) | - | - | (35) | (35) |
| Total impairment provisions | 108 | 60 | 352 | 520 | 108 | 57 | 352 | 517 |
| Total net loans | 32,479 | 1,584 | 14,111 | 48,174 | 32,386 | 1,518 | 14,111 | 48,015 |

1 Past due assets are not impaired assets.

2 The Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

3 The Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Note 14 Goodwill and other intangible assets

| | The Banking Group | | | The Bank | | |
|---|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Goodwill | | | | | | |
| Cost | 477 | 477 | 477 | 477 | 477 | 477 |
| Accumulated impairment | - | - | - | - | - | - |
| Net carrying amount of goodwill | 477 | 477 | 477 | 477 | 477 | 477 |
| Computer software | | | | | | |
| Cost | 255 | 227 | 237 | 255 | 227 | 237 |
| Accumulated amortisation and impairment | (159) | (132) | (139) | (159) | (132) | (139) |
| Net carrying amount of computer software | 96 | 95 | 98 | 96 | 95 | 98 |
| Total goodwill and other intangible assets | 573 | 572 | 575 | 573 | 572 | 575 |

| | The Banking Group | | | The Bank | | |
|--|-------------------|-----------------------------|--------------|-----------------|-----------------------------|--------------|
| | Goodwill \$m | Computer Software \$m | Total \$m | Goodwill \$m | Computer Software \$m | Total \$m |
| Balance as at 1 October 2009 | 477 | 98 | 575 | 477 | 98 | 575 |
| Additions | - | 18 | 18 | - | 18 | 18 |
| Amortisation | - | (20) | (20) | - | (20) | (20) |
| Net carrying amount as at 31 March 2010 (unaudited) | 477 | 96 | 573 | 477 | 96 | 573 |
| Balance as at 1 October 2008 | 477 | 102 | 579 | 477 | 102 | 579 |
| Additions | - | 15 | 15 | - | 15 | 15 |
| Amortisation | - | (22) | (22) | - | (22) | (22) |
| Net carrying amount as at 31 March 2009 (unaudited) | 477 | 95 | 572 | 477 | 95 | 572 |
| Balance as at 1 October 2008 | 477 | 102 | 579 | 477 | 102 | 579 |
| Additions | - | 44 | 44 | - | 44 | 44 |
| Amortisation | - | (45) | (45) | - | (45) | (45) |
| Impairment | - | (3) | (3) | - | (3) | (3) |
| Net carrying amount as at 30 September 2009 (audited) | 477 | 98 | 575 | 477 | 98 | 575 |

Goodwill is allocated to and tested at least annually for impairment as a part of its identified CGUs. The operating segment of Consumer Banking is the CGU that the goodwill has been allocated to.

The recoverable amount of the CGU is determined annually based on value-in-use calculations. These calculations were last performed at 30 September 2009. These calculations used discounted cash flow projections based on an approved two-year strategic business plan. While the strategic business plan assumes certain economic conditions, the forecast is not reliant on one particular assumption. These business forecasts applied by management are considered appropriate as they are based on past experience and are consistent with observable current market information. The growth rates after 2011 are assumed to be zero for all CGUs for the purpose of goodwill impairment testing. The discount rate used is the before tax equivalent of the Banking Group's cost of capital of 15.7% as at 30 September 2009.

A reasonably possible change in these key assumptions would not cause the CGUs' carrying amount to exceed its recoverable amount.

Note 15 Property, plant and equipment

| | The Banking Group | | | The Bank | | |
|---|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Leasehold improvements | | | | | | |
| Cost | 179 | 158 | 163 | 1 | 1 | 1 |
| Accumulated depreciation and impairment | (100) | (96) | (96) | (1) | (1) | - |
| Net carrying amount of leasehold improvements | 79 | 62 | 67 | - | - | 1 |
| Furniture and equipment | | | | | | |
| Cost | 181 | 193 | 187 | 87 | 97 | 94 |
| Accumulated depreciation and impairment | (156) | (165) | (162) | (76) | (87) | (86) |
| Net carrying amount of furniture and equipment | 25 | 28 | 25 | 11 | 10 | 8 |
| Total property, plant and equipment | 104 | 90 | 92 | 11 | 10 | 9 |

Notes to the financial statements

Note 15 Property, plant and equipment (continued)

| | The Banking Group | | | The Bank | | |
|--|-------------------------------|--------------------------------|--------------|-------------------------------|--------------------------------|--------------|
| | Leasehold Improvements \$m | Furniture and Equipment \$m | Total \$m | Leasehold Improvements \$m | Furniture and Equipment \$m | Total \$m |
| Balance as at 1 October 2009 | 67 | 25 | 92 | 1 | 8 | 9 |
| Additions | 16 | 6 | 22 | - | 5 | 5 |
| Disposals | - | (1) | (1) | - | (1) | (1) |
| Depreciation | (4) | (5) | (9) | (1) | (1) | (2) |
| Net carrying amount as at 31 March 2010 (unaudited) | 79 | 25 | 104 | - | 11 | 11 |
| Balance as at 1 October 2008 | 45 | 31 | 76 | - | 11 | 11 |
| Additions | 21 | 2 | 23 | - | 1 | 1 |
| Depreciation | (4) | (5) | (9) | - | (2) | (2) |
| Net carrying amount as at 31 March 2009 (unaudited) | 62 | 28 | 90 | - | 10 | 10 |
| Balance as at 1 October 2008 | 45 | 31 | 76 | - | 11 | 11 |
| Additions | 31 | 7 | 38 | 1 | 3 | 4 |
| Disposals | - | (2) | (2) | - | (2) | (2) |
| Depreciation | (9) | (11) | (20) | - | (4) | (4) |
| Net carrying amount as at 30 September 2009 (audited) | 67 | 25 | 92 | 1 | 8 | 9 |

Property, plant and equipment under construction

Included in property, plant and equipment are leasehold improvements in the Banking Group with a carrying value of \$57 million (31 March 2009: \$39 million, 30 September 2009: \$46 million) that are under construction.

Note 16 Deferred tax assets and liabilities

Deferred tax assets

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Deferred tax assets are attributable to the following: | | | | | | |
| Property, plant and equipment | 7 | 5 | 4 | (4) | (5) | (6) |
| Provision for loan impairment | 212 | 178 | 166 | 210 | 177 | 166 |
| Provision for employee entitlements | 18 | 22 | 19 | 16 | 22 | 19 |
| Other temporary differences | 4 | 3 | 3 | 1 | 1 | - |
| Set-off of deferred tax liabilities | (1) | 8 | 4 | 1 | 8 | 4 |
| Balance at end of the period/year | 240 | 216 | 196 | 224 | 203 | 183 |
| To be recovered within 12 months | 178 | 136 | 122 | 173 | 135 | 120 |
| To be recovered after more than 12 months | 62 | 80 | 74 | 51 | 68 | 63 |
| Balance at end of the period/year | 240 | 216 | 196 | 224 | 203 | 183 |
| Movements | | | | | | |
| Balance at beginning of the period/year | 196 | 132 | 132 | 183 | 121 | 121 |
| Prior period/year adjustments | 4 | 3 | 2 | 2 | 3 | 2 |
| Set-off of deferred tax liabilities | (1) | 8 | 4 | 1 | 8 | 4 |
| Credited to the income statement (refer to Note 7) | 41 | 73 | 67 | 38 | 73 | 66 |
| Charged to equity | - | (2) | (10) | - | (2) | (10) |
| Other temporary differences | - | 2 | 1 | - | - | - |
| Balance at end of the period/year | 240 | 216 | 196 | 224 | 203 | 183 |
| The deferred tax charge in the income tax expense comprises the following temporary differences: | | | | | | |
| Property, plant and equipment | 3 | 1 | - | 2 | - | (1) |
| Provision for loan impairment | 46 | 81 | 69 | 44 | 80 | 69 |
| Provision for employee entitlements | (1) | (8) | 1 | (3) | (6) | (9) |
| Other temporary differences | (7) | (1) | (3) | (5) | (1) | 7 |
| Total deferred tax charge | 41 | 73 | 67 | 38 | 73 | 66 |
| The deferred tax charge in equity comprises the following temporary differences: | | | | | | |
| Cash flow hedges | - | - | - | - | - | - |
| Provision for employee entitlements | - | (2) | (10) | - | (2) | (10) |
| Total deferred tax charge | - | (2) | (10) | - | (2) | (10) |

Note 16 Deferred tax assets and liabilities (continued)

Deferred tax liabilities

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Deferred tax liabilities are attributable to the following: | | | | | | |
| Amounts recognised directly in equity: | | | | | | |
| Cash flow hedges | 1 | (8) | (4) | (1) | (8) | (4) |
| Set-off of deferred tax assets | (1) | 8 | 4 | 1 | 8 | 4 |
| Balance at end of the period/year | - | - | - | - | - | - |
| To be settled within 12 months | - | - | - | - | - | - |
| To be settled after more than 12 months | - | - | - | - | - | - |
| Balance at end of the period/year | - | - | - | - | - | - |
| Movements | | | | | | |
| Balance at beginning of the period/year | - | - | - | - | - | - |
| Set-off of deferred tax assets | (1) | 8 | 4 | 1 | 8 | 4 |
| Credited to the income statement (refer to Note 7) | (3) | (2) | (1) | (5) | (2) | (1) |
| (Credited)/charged to equity | 4 | (6) | (3) | 4 | (6) | (3) |
| Balance at end of the period/year | - | - | - | - | - | - |
| The deferred tax charge in the income tax expense comprises the following temporary differences: | | | | | | |
| Other temporary differences | (3) | (2) | (1) | (5) | (2) | (1) |
| Total deferred tax charge | (3) | (2) | (1) | (5) | (2) | (1) |
| The deferred tax charge in equity comprises the following temporary differences: | | | | | | |
| Cash flow hedges | 2 | (6) | (3) | 2 | (6) | (3) |
| Provision for employee entitlements | 2 | - | - | 2 | - | - |
| Total deferred tax charge | 4 | (6) | (3) | 4 | (6) | (3) |

As at 31 March 2010, the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (31 March 2009: nil, 30 September 2009: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, effective 1 April 2011. The Banking Group has reviewed the carrying amount of its deferred tax assets in light of this company tax rate reduction. The announcement does not constitute an adjusting event and the Banking Group's review concluded that the impact of these changes is not material.

Note 17 Other assets

| | The Banking Group | | | The Bank | | |
|-------------------------------|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Accrued interest receivable | 115 | 128 | 117 | 114 | 126 | 116 |
| Trade debtors and prepayments | 34 | 25 | 23 | 33 | 24 | 21 |
| Account fees and commissions | 2 | 2 | 1 | 2 | 2 | 1 |
| Other | 2 | 2 | 1 | 2 | 2 | 1 |
| Total other assets | 153 | 157 | 142 | 151 | 154 | 139 |
| Due within 12 months | 153 | 157 | 142 | 151 | 154 | 139 |
| Due after 12 months | - | - | - | - | - | - |
| Total other assets | 153 | 157 | 142 | 151 | 154 | 139 |

Notes to the financial statements

Note 18 Deposits

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Deposits at fair value | | | | | | |
| Certificates of deposit | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Total deposits at fair value | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Deposits at amortised cost | | | | | | |
| Non-interest bearing, repayable at call | 2,516 | 2,225 | 2,219 | 2,516 | 2,225 | 2,219 |
| Other interest bearing: | | | | | | |
| At call | 10,458 | 10,925 | 10,619 | 10,458 | 10,925 | 10,619 |
| Term | 17,135 | 15,469 | 16,189 | 16,896 | 15,469 | 16,173 |
| Total deposits at amortised cost | 30,109 | 28,619 | 29,027 | 29,870 | 28,619 | 29,011 |
| Total deposits | 32,535 | 32,688 | 32,495 | 32,296 | 32,688 | 32,479 |
| Due within 12 months | 31,339 | 31,395 | 30,972 | 31,108 | 31,395 | 30,956 |
| Due after 12 months | 1,196 | 1,293 | 1,523 | 1,188 | 1,293 | 1,523 |
| Total deposits | 32,535 | 32,688 | 32,495 | 32,296 | 32,688 | 32,479 |

Note 19 Trading liabilities and other financial liabilities designated at fair value

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Held for trading | | | | | | |
| Securities sold under agreements to repurchase | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Total trading liabilities and other financial liabilities designated at fair value | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Due within 12 months | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Due after 12 months | - | - | - | - | - | - |
| Total trading liabilities and other financial liabilities designated at fair value | - | 2,297 | 1,885 | - | 2,297 | 1,885 |

Note 20 Debt issues

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Unaudited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Unaudited \$m |
| Short-term debt | | | | | | |
| Commercial paper | 8,278 | 7,458 | 6,027 | - | - | - |
| Total short-term debt | 8,278 | 7,458 | 6,027 | - | - | - |
| Long-term debt | | | | | | |
| Euro medium-term notes | 6,281 | 2,151 | 4,139 | - | - | - |
| Domestic medium-term notes | 2,251 | 1,883 | 2,203 | 2,251 | 1,753 | 2,203 |
| Total long-term debt | 8,532 | 4,034 | 6,342 | 2,251 | 1,753 | 2,203 |
| Total debt issues | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Government guaranteed debt ¹ | 4,279 | - | 4,129 | 673 | - | 673 |
| Non-government guaranteed debt, but secured | 12,531 | 11,492 | 8,240 | 1,578 | 1,753 | 1,530 |
| Total debt issues | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Debt issues at amortised cost | 8,532 | 1,753 | 6,287 | 2,251 | 1,753 | 2,203 |
| Debt issues at fair value | 8,278 | 9,739 | 6,082 | - | - | - |
| Total debt issues | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Due within 12 months | 8,352 | 9,859 | 6,767 | 74 | 410 | 310 |
| Due after 12 months | 8,458 | 1,633 | 5,602 | 2,177 | 1,343 | 1,893 |
| Total debt issues | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |

¹ For further information on government guaranteed debt please refer to Guarantee arrangements on page 4.

Certain comparative numbers have been reclassified due to continuing analysis of debt issues data.

Note 21 Provisions

| | The Banking Group and the Bank | | | | Total \$m |
|--|---------------------------------|--|------------------------------|---|--------------|
| | Long Service Leave \$m | Annual Leave and Other Staff Benefits \$m | Non-lending Losses \$m | Impairment on Credit Commit- ments \$m | |
| Balance as at 1 October 2009 | 7 | 32 | 2 | 35 | 76 |
| Additional provisions recognised | - | 5 | 1 | - | 6 |
| Utilised during the period | - | (7) | (1) | (1) | (9) |
| Balance as at 31 March 2010 (unaudited) | 7 | 30 | 2 | 34 | 73 |
| Balance as at 1 October 2008 | 7 | 33 | 5 | 22 | 67 |
| Additional provisions recognised | - | 8 | 1 | 10 | 19 |
| Utilised during the period | - | (16) | (1) | - | (17) |
| Balance as at 31 March 2009 (unaudited) | 7 | 25 | 5 | 32 | 69 |
| Balance as at 1 October 2008 | 7 | 33 | 5 | 22 | 67 |
| Additional provisions recognised | - | 13 | 2 | 13 | 28 |
| Utilised during the year | - | (14) | (5) | - | (19) |
| Balance as at 30 September 2009 (audited) | 7 | 32 | 2 | 35 | 76 |

Provisions represent costs the Banking Group and the Bank expect to incur as a result of past events, where the timing of payment is uncertain. Provisions expected to be utilised beyond 12 months as at 31 March 2010 are \$43 million (31 March 2009: \$44 million, 30 September 2009: \$44 million) for the Banking Group and the Bank.

Note 22 Other liabilities

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Accrued interest payable | 269 | 277 | 290 | 235 | 253 | 246 |
| Credit card loyalty programme | 26 | 26 | 27 | 26 | 26 | 27 |
| Retirement benefit deficit | 14 | 58 | 30 | 14 | 58 | 30 |
| Trade creditors and other accrued expenses | 110 | 78 | 78 | 105 | 74 | 75 |
| Other | 51 | 65 | 99 | 45 | 57 | 93 |
| Total other liabilities | 470 | 504 | 524 | 425 | 468 | 471 |
| Due within 12 months | 456 | 446 | 494 | 411 | 410 | 441 |
| Due after 12 months | 14 | 58 | 30 | 14 | 58 | 30 |
| Total other liabilities | 470 | 504 | 524 | 425 | 468 | 471 |

Note 23 Priority of financial liabilities in the event of liquidation

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Deposits at amortised cost | 30,109 | 28,619 | 29,027 | 29,870 | 28,619 | 29,011 |
| Deposits at fair value | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Debt issues | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Trading liabilities and other financial liabilities designated at fair value | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Other liabilities | 456 | 446 | 494 | 411 | 410 | 441 |
| Perpetual subordinated notes | 970 | 970 | 970 | 970 | 970 | 970 |
| Due to related entities | 1,468 | 2,584 | 2,426 | 23,829 | 20,293 | 20,236 |
| Total financial liabilities | 52,239 | 50,477 | 50,639 | 59,757 | 58,411 | 58,214 |

Notes to the financial statements

Note 24 Perpetual subordinated notes

These perpetual subordinated notes have been issued to Westpac New Zealand Group Limited 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.

| | The Banking Group | | | The Bank | | |
|---|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Perpetual subordinated notes | 970 | 970 | 970 | 970 | 970 | 970 |
| Total perpetual subordinated notes | 970 | 970 | 970 | 970 | 970 | 970 |

Note 25 Share capital Ordinary shares fully paid

| | The Banking Group | | | The Bank | | |
|--------------------------------------|--|--|--|--|--|--|
| | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares |
| At beginning of the period/year | 3,470,001,000 | 3,250,001,000 | 3,250,001,000 | 3,470,001,000 | 3,250,001,000 | 3,250,001,000 |
| Shares issued during the period/year | - | 220,000,000 | 220,000,000 | - | 220,000,000 | 220,000,000 |
| At end of the period/year | 3,470,001,000 | 3,470,001,000 | 3,470,001,000 | 3,470,001,000 | 3,470,001,000 | 3,470,001,000 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| At beginning of the period/year | 3,470 | 3,250 | 3,250 | 3,470 | 3,250 | 3,250 |
| Shares issued during the period/year | - | 220 | 220 | - | 220 | 220 |
| At end of the period/year | 3,470 | 3,470 | 3,470 | 3,470 | 3,470 | 3,470 |

Redeemable preference shares fully paid

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares |
| At beginning of the period/year | - | 1,300,000,000 | 1,300,000,000 | - | 1,300,000,000 | 1,300,000,000 |
| Shares redeemed during the period/year | - | (1,300,000,000) | (1,300,000,000) | - | (1,300,000,000) | (1,300,000,000) |
| At end of the period/year | - | - | - | - | - | - |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| At beginning of the period/year | - | 1,300 | 1,300 | - | 1,300 | 1,300 |
| Shares redeemed during the period/year | - | (1,300) | (1,300) | - | (1,300) | (1,300) |
| At end of the period/year | - | - | - | - | - | - |

B Voting shares fully paid

| | The Banking Group | | | The Bank | | |
|--|--|--|--|--|--|--|
| | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares | 31 March 2010 Unaudited Number of Issued Shares | 31 March 2009 Unaudited Number of Issued Shares | 30 September 2009 Audited Number of Issued Shares |
| At beginning and end of the period/year | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| At beginning and end of the period/year | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |

Ordinary shares

On 22 October 2008, the Bank issued 220,000,000 ordinary shares for \$220,000,000 in lieu of dividends. 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 in accordance with section 38 of the Companies Act 1993. The ordinary shares in the Bank confer on their holder the rights described in section 36 of the Companies Act 1993, i.e. subject to the constitution of the Bank, each share 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. Under the constitution of the Bank, there is provision for the Board to authorise a dividend which is of a greater value per share for some shares than it is for others, so long as the amount paid is in proportion to the amount paid up on the shares.

Note 25 Share capital (continued)

Dividends paid by the Bank on the ordinary shares for the six months ended 31 March 2010 were nil (31 March 2009: \$220 million, 30 September 2009: \$220 million). Dividends paid per ordinary share by the Bank for the six months ended 31 March 2010 were nil (31 March 2009: 6.8 cents, 30 September 2009: 6.8 cents).

Redeemable preference shares ('RPS')

The 1.3 billion RPS were issued for consideration of \$1 per share on 20 February 2008 and constituted neither Tier One nor Tier Two Capital. The holders of RPS had no voting rights. The RPS had a term of 100 years and could be redeemed at any time at the option of the Bank (on 30 days' notice) for their issue price. There were restrictions on the transfer of the RPS.

Dividends were non-cumulative and payable quarterly (at the discretion of the Board) on a formula based on a swap rate of 8.02% per annum plus a margin of 1% per annum. Payment of dividends and capital in the event of liquidation were to be made in priority to those on ordinary shares, but pari passu with those on the B Voting shares (as described below).

The RPS were redeemed at their issue price on 18 February 2009.

Dividends paid by the Bank on the RPS for the six months ended 31 March 2010 were nil (31 March 2009: \$104 million, 30 September 2009: \$104 million). Dividends paid per RPS by the Bank for the six months ended 31 March 2010 were nil (31 March 2009: 8.0 cents, 30 September 2009: 8.0 cents).

B Voting shares

The B Voting shares are classified as Tier Two Capital. The holder of each B Voting share is entitled to cast 31,250 votes at meetings of shareholders (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast). Dividends were payable on B Voting shares on the same terms as the RPS but now that the RPS have been redeemed, no dividends are payable on the B Voting shares.

Note 26 Related entities

Banking Group

The Bank is a controlled entity of Westpac New Zealand Group Limited. The ultimate parent bank of the Bank is Westpac Banking Corporation. The Banking Group consists of the Bank and all its controlled entities. As at 31 March 2010, the Bank has the following controlled entities:

| Name of Controlled Entity | Principal Activity | Notes |
|--|---|--|
| Westpac NZ Operations Limited | Holding company | |
| The Home Mortgage Company Limited | Residential mortgage company | |
| The Warehouse Financial Services Limited | Financial services company | 51% owned |
| Westpac (NZ) Investments Limited | Property owning and capital funding company | |
| Westpac Securities NZ Limited | Funding company | |
| Number 120 Limited | Finance company | Incorporated 11 February 2010 |
| Westpac NZ Securitisation Holdings Limited | Holding company | Incorporated 14 October 2008, 9.5% owned |
| Westpac NZ Securitisation Limited | Funding company | Incorporated 14 October 2008 |
| Westpac Term PIE Fund | Portfolio investment entity | Established 20 July 2009 |

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the Banking Group have a balance date of 30 September and are incorporated in New Zealand, except Westpac Term PIE Fund ('**Term PIE**') which has a balance date of 31 March.

Transactions and balances with related parties are disclosed separately in these financial statements.

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The Banking Group, through its subsidiary, Westpac NZ Operations Limited, has a qualifying interest of 9.5% in WNZSHL. The Banking Group is considered to control both WNZSHL and WNZSL through contractual arrangements put in place, and as such both WNZSHL and WNZSL are consolidated in the financial statements of the Banking Group.

Term PIE was established on 20 July 2009 as a unit trust under the Unit Trusts Act 1960. Term PIE is a portfolio investment entity ('**PIE**'), where BT Funds Management (NZ) Limited is the manager and issuer of Term PIE. The manager has appointed the Bank to perform all customer management and account administration for Term PIE. The Bank is the Term PIE's registrar and administration manager. The Bank is considered to control Term PIE based on contractual arrangements put in place, and as such Term PIE is consolidated in the financial statements of the Banking Group.

Investment in associate

The Banking Group holds 15% of Cards NZ Limited's equity plus one Visa Inc access preference share.

| | The Banking Group | | | The Bank | | |
|--|-----------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Balance at beginning of the period/year | 48 | 48 | 48 | - | - | - |
| Equity share of net profit | - | - | - | - | - | - |
| Balance at end of the period/year | 48 | 48 | 48 | - | - | - |

Note 26 Related entities (continued)

Nature of transactions

The Banking Group has intragroup transactions with members of the Ultimate Parent Bank on commercial terms, including the provision of management and administrative services and data processing facilities. Such transactions are not considered to be material either individually or in aggregate.

Transactions with the Ultimate Parent Bank

Loan finance and current account banking facilities are provided by the Bank and the Ultimate Parent Bank to the other members of the Banking Group on normal commercial terms. Interest is paid on these loans at market rates and members of the Banking Group earn interest on deposits with the Bank and the Ultimate Parent Bank.

The Bank pays subvention payments to members of the Ultimate Parent Bank's New Zealand group for the use of tax losses. The total payment made by the Bank for the six months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil). Payments made for tax loss transfers between members of the Ultimate Parent Bank's New Zealand group are determined having regard to the circumstances of the entities and the value of the tax losses.

The Ultimate Parent Bank provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Bank. The Bank receives commission from these sales. Commission received for the six months ended 31 March 2010 was \$8 million (31 March 2009: \$7 million, 30 September 2009: \$11 million).

Managed funds products are sold by the Bank on behalf of the Ultimate Parent Bank. The Bank receives commission from these sales. Commission received for the six months ended 31 March 2010 was \$2 million (31 March 2009: \$3 million, 30 September 2009: \$5 million).

Transactions with controlled entities of the Banking Group

The Bank provided funding to WNZSL, in relation to securitisation activities, during the current reporting period (refer to Note 34).

Rental expenses are paid by the Bank to Westpac (NZ) Investments Limited. The total charge for the six months ended 31 March 2010 was \$40 million (31 March 2009: \$36 million, 30 September 2009: \$81 million).

Westpac Securities NZ Limited provides funding to the Bank. Management fees are paid by the Bank for these services. Management fees paid for the six months ended 31 March 2010 were \$1 million (31 March 2009: \$1 million, 30 September 2009: \$2 million).

The Bank guarantees all payment obligations in respect of debt issues issued by controlled entities of the Banking Group.

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid to the Bank for the six months ended 31 March 2010 were \$3 million (31 March 2009: \$3 million, 30 September 2009: \$5 million).

Transactions with other controlled entities of the Ultimate Parent Bank

Derivative transactions are entered into with other members of the Ultimate Parent Bank Group, including the Banking Group, in the normal course of business. Management systems and operational controls are in place to manage any resulting interest rate or currency risk. Accordingly, it is not envisaged that any liability resulting in material loss will arise from these transactions.

Life insurance products are sold by the Bank on behalf of the Ultimate Parent Bank Group. The Bank receives commission on these sales. Commission received for the six months ended 31 March 2010 was \$9 million (31 March 2009: \$8 million, 30 September 2009: \$17 million).

Transactions with associates

In 2008, the Banking Group purchased VISA Inc shares from Cards NZ Limited at fair market value totalling \$48 million. The purchase was satisfied through the issue of an interest bearing promissory note. No interest was paid on the promissory note during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: \$2 million).

Other group investments

The Banking Group had non-controlling shareholdings in the following New Zealand based entities as at 31 March 2010:

| Name | Shares held by | Beneficial interest | Nature of business |
|--|-------------------------------|---------------------|--------------------------------|
| Paymark Limited (previously Electronic Transaction Services Limited) | Westpac NZ Operations Limited | 25% | Electronic payments processing |
| Interchange and Settlement Limited | Westpac NZ Operations Limited | 14% | Retail payments processing |

The Banking Group does not have significant influence over these entities and therefore they are not classified as associates.

The total carrying amount of the Banking Group's non-controlling shareholdings in the above investments, and their contribution to the results of the Banking Group, are not material either individually or in aggregate.

Note 27 Derivative financial instruments

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements, whose values derive from the value of an underlying asset, reference rate or index.

A forward contract obliges one party to buy and the other to sell, a specific underlying product or instrument at a specific price, amount and date in the future. A forward rate agreement ('**FRA**') is an agreement between two parties establishing a contract interest rate on a notional principal over a specified period commencing at a specific future date.

A futures contract is similar to a forward contract. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures are exchange traded.

A swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates.

An option contract gives the option holder the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The writer of the option contract is obliged to perform if the holder exercises the right contained therein.

Certain leveraged derivatives include an explicit leverage factor in the payment formula. The leverage factor has the effect of multiplying the notional amount such that the impact of changes in the underlying price or prices may be greater than that indicated by the notional amount alone. The Banking Group has no significant exposure to those types of transactions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The notional amount of the derivative financial instruments on hand is the aggregate notional or contractual amounts of both instruments that are favourable and unfavourable.

The Banking Group uses derivatives as an end-user as part of its asset and liability management activities. Derivatives with related parties are included in due from/due to related entities.

Hedging

The Banking Group enters into derivative transactions that are designated and qualify as either fair value hedges or cash flow hedges for recognised assets and liabilities or forecast transactions. It also enters into derivative transactions that provide economic hedges for risk exposures, but do not meet the requirements for hedge accounting treatment. Gains and losses on these derivative transactions are recorded in trading income.

Fair value hedges

The Banking Group hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets or increase in fair value of term deposits from customers denominated in local currency using swaps.

For the Banking Group and the Bank, the change in the fair value of hedging instruments designated as fair value hedges was a \$133 million gain (31 March 2009: \$411 million loss, 30 September 2009: \$186 million loss) while the change in the fair value of the hedged items, attributed to the hedge risk was a \$126 million loss (31 March 2009: \$413 million gain, 30 September 2009: \$187 million gain).

Cash flow hedges

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. The Banking Group also hedges exposure to foreign currency principal and interest cash flows from floating-rate medium-term debt issuance through the use of cross-currency derivatives. All derivatives for the Banking Group are held in the Bank.

Dual fair value and cash flow hedges

The Banking Group hedges foreign currency denominated medium-term debt issuance using cross-currency interest rate derivatives, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

Notes to the financial statements

Note 27 Derivative financial instruments (continued)

Derivatives held with external counterparties

| | The Banking Group and The Bank | | |
|---|--------------------------------|----------------------------|----------------------------------|
| | 31 March 2010 – Unaudited | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 497 | 18 | - |
| Total held for trading derivatives | 497 | 18 | - |
| Total derivatives | 497 | 18 | - |

| | The Banking Group and The Bank | | |
|---|--------------------------------|----------------------------|----------------------------------|
| | 31 March 2009 – Unaudited | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 577 | 26 | - |
| Total held for trading derivatives | 577 | 26 | - |
| Total derivatives | 577 | 26 | - |

| | The Banking Group and The Bank | | |
|---|--------------------------------|----------------------------|----------------------------------|
| | 30 September 2009 – Audited | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 525 | 22 | - |
| Total held for trading derivatives | 525 | 22 | - |
| Total derivatives | 525 | 22 | - |

Derivatives held with related entities

| | The Banking Group and The Bank | | |
|---|--------------------------------|----------------------------|----------------------------------|
| | 31 March 2010 – Unaudited | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Forwards | 9,250 | 1 | - |
| Swaps | 877 | 1 | (1) |
| Foreign exchange derivatives | | | |
| Swaps | 8,917 | 79 | (204) |
| Total held for trading derivatives | 19,044 | 81 | (205) |
| Fair value hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 8,516 | - | (398) |
| Foreign exchange derivatives | | | |
| Swaps | 5,697 | 4 | (514) |
| Total fair value hedging derivatives | 14,213 | 4 | (912) |
| Cash flow hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 16,007 | 27 | (80) |
| Foreign exchange derivatives | | | |
| Swaps | 301 | - | (6) |
| Total cash flow hedging derivatives | 16,308 | 27 | (86) |
| Total derivatives | 49,565 | 112 | (1,203) |

Note 27 Derivative financial instruments (continued)

Derivatives held with related entities

| The Banking Group and The Bank | | | |
|---|-----------------|----------------------------|----------------------------------|
| 31 March 2009 – Unaudited | | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 33,324 | 36 | (38) |
| Foreign exchange derivatives | | | |
| Swaps | 9,692 | 236 | (540) |
| Total held for trading derivatives | 43,016 | 272 | (578) |
| Fair value hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 14,499 | - | (804) |
| Total fair value hedging derivatives | 14,499 | - | (804) |
| Cash flow hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 1,147 | 8 | (34) |
| Total cash flow hedging derivatives | 1,147 | 8 | (34) |
| Total derivatives | 58,662 | 280 | (1,416) |
| The Banking Group and The Bank | | | |
| 30 September 2009 – Audited | | | |
| | Notional \$m | Fair Value Asset \$m | Fair Value (Liability) \$m |
| Held for trading derivatives | | | |
| Interest rate derivatives | | | |
| Forwards | 5,250 | - | (1) |
| Swaps | 4,233 | 9 | (2) |
| Foreign exchange derivatives | | | |
| Swaps | 6,716 | 1 | (521) |
| Total held for trading derivatives | 16,199 | 10 | (524) |
| Fair value hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 10,987 | 1 | (585) |
| Foreign exchange derivatives | | | |
| Swaps | 3,470 | - | (544) |
| Total fair value hedging derivatives | 14,457 | 1 | (1,129) |
| Cash flow hedging derivatives | | | |
| Interest rate derivatives | | | |
| Swaps | 10,782 | 18 | (31) |
| Total cash flow hedging derivatives | 10,782 | 18 | (31) |
| Total derivatives | 41,438 | 29 | (1,684) |

Note 27 Derivative financial instruments (continued)

Underlying cash flows from cash flow hedges, as a proportion of total cash flows, are expected to occur in the following periods:

| | The Banking Group and The Bank | | | | | | | |
|-----------------------------|--------------------------------|-----------------------|----------------------|---------------------------|----------------------|----|----------------------|----------------|
| | Less Than 1 Month % | 1 Month to 3 Months % | 3 Months to 1 Year % | 31 March 2010 – Unaudited | | | 4 Years to 5 Years % | Over 5 Years % |
| | | | 1 Year to 2 Years % | 2 Years to 3 Years % | 3 Years to 4 Years % | | | |
| Cash inflows (assets) | 1 | 7 | 18 | 21 | 37 | 10 | 3 | 3 |
| Cash outflows (liabilities) | 2 | 9 | 20 | 20 | 35 | 9 | 3 | 2 |

| | The Banking Group and The Bank | | | | | | | |
|-----------------------------|--------------------------------|-----------------------|----------------------|---------------------------|----------------------|----|----------------------|----------------|
| | Less Than 1 Month % | 1 Month to 3 Months % | 3 Months to 1 Year % | 31 March 2009 – Unaudited | | | 4 Years to 5 Years % | Over 5 Years % |
| | | | 1 Year to 2 Years % | 2 Years to 3 Years % | 3 Years to 4 Years % | | | |
| Cash inflows (assets) | 1 | 7 | 18 | 24 | 23 | 14 | 10 | 3 |
| Cash outflows (liabilities) | 2 | 8 | 20 | 24 | 22 | 13 | 10 | 1 |

| | The Banking Group and The Bank | | | | | | | |
|-----------------------------|--------------------------------|-----------------------|----------------------|-----------------------------|----------------------|----|----------------------|----------------|
| | Less Than 1 Month % | 1 Month to 3 Months % | 3 Months to 1 Year % | 30 September 2009 – Audited | | | 4 Years to 5 Years % | Over 5 Years % |
| | | | 1 Year to 2 Years % | 2 Years to 3 Years % | 3 Years to 4 Years % | | | |
| Cash inflows (assets) | 2 | 6 | 19 | 28 | 21 | 14 | 10 | - |
| Cash outflows (liabilities) | 2 | 7 | 22 | 26 | 19 | 14 | 10 | - |

For the six months ended 31 March 2010, a \$1 million loss on cash flow hedges was recognised due to hedge ineffectiveness (31 March 2009: nil, 30 September 2009: nil) in the Banking Group and the Bank.

For the six months ended 31 March 2010, a \$8 million gain on fair value hedges was recognised due to hedge ineffectiveness (31 March 2009: \$2 million gain, 30 September 2009: \$1 million gain) in the Banking Group and the Bank.

Note 28 Fair value of financial instruments

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The fair value estimates were determined by application of the methods and assumptions described below.

Certain short-term financial instruments

For cash and short-term liquid assets, amounts due from other banks with maturities of less than three months, and other types of short-term financial instruments recognised in the balance sheet under 'other assets' and 'other liabilities' carrying amount is equivalent to fair value.

Trading securities

For trading securities, the fair values, which are also the carrying amounts, are based on quoted market prices.

Floating rate financial instruments

For floating rate financial instruments (including variable rate loans which comprise a portion of the Banking Group's loan portfolio) with no significant change in credit risk, the carrying amount is a reasonable estimate of fair value.

Due from other financial institutions and fixed rate loans

For amounts due from other financial institutions with maturities of three months or more and fully performing fixed rate loans, the fair values have been estimated by reference to current rates at which similar advances would be made to financial institutions and other borrowers with a similar credit rating and the same remaining maturities. For maturities of less than three months, the carrying value is a reasonable estimate of fair value.

Due to other financial institutions, deposits and debt issues

The fair value of demand deposits is the amount payable on demand as at balance date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the rates currently offered for similar liabilities of similar remaining maturities.

Perpetual subordinated notes

Perpetual subordinated notes are carried at amortised cost which approximates the fair value.

Note 28 Fair value of financial instruments (continued)

Exchange rate and interest rate contracts

For exchange rate and interest rate contracts, fair values are obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The carrying amount and fair value for these contracts are included in derivative financial instruments and amounts due from/to related entities, as applicable.

Other financial assets and liabilities

For all other financial assets and liabilities the carrying amount approximates fair value. These items are either short-term in nature, reprice frequently or are of a high credit rating.

Interest rates used for determining fair value

The following rates used to discount estimated cash flows, where applicable, are based on the wholesale markets yield curve at the reporting date plus an appropriate constant credit spread:

| | The Banking Group and the Bank | | |
|-------------|------------------------------------|------------------------------------|--------------------------------------|
| | 31 March 2010 Unaudited % | 31 March 2009 Unaudited % | 30 September 2009 Audited % |
| Loans | 3.80 - 10.30 | 4.24 - 10.14 | 3.88 - 9.51 |
| Deposits | 2.50 - 8.22 | 3.50 - 5.00 | 2.48 - 7.85 |
| Debt issues | 0.05 - 5.59 | 0.05 - 6.10 | 0.06 - 6.35 |

The tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Banking Group and the Bank.

| | The Banking Group 31 March 2010 – Unaudited | | | | | | | |
|---|--|--------------|----------------|---------------------------------|--|---|------------------------------------|--------------------------------|
| | Classified at Fair Value through Profit or Loss | | Hedging \$m | Loans and Receivables \$m | Available- for-Sale Financial Assets \$m | Financial Liabilities at Amortised Cost \$m | Total Carrying Amount \$m | Estimated Fair Value \$m |
| Held for Trading \$m | Designated upon Initial Recognition \$m | | | | | | | |
| Financial assets | | | | | | | | |
| Cash and balances with central banks | - | - | - | 239 | - | - | 239 | 239 |
| Due from other financial institutions | - | - | - | 3 | - | - | 3 | 3 |
| Derivative financial instruments | 18 | - | - | - | - | - | 18 | 18 |
| Trading securities and other financial assets designated at fair value | 4,609 | - | - | - | - | - | 4,609 | 4,609 |
| Available-for-sale securities | - | - | - | - | 56 | - | 56 | 56 |
| Loans | - | - | - | 49,369 | - | - | 49,369 | 49,520 |
| Due from related entities | - | - | - | 842 | - | - | 842 | 842 |
| Other assets | - | - | - | 153 | - | - | 153 | 153 |
| Total financial assets | 4,627 | - | - | 50,606 | 56 | - | 55,289 | 55,440 |
| Financial liabilities | | | | | | | | |
| Deposits at fair value | 2,426 | - | - | - | - | - | 2,426 | 2,426 |
| Deposits at amortised cost | - | - | - | - | - | 30,109 | 30,109 | 30,177 |
| Debt issues | - | 8,278 | - | - | - | 8,532 | 16,810 | 17,266 |
| Other liabilities | - | - | - | - | - | 456 | 456 | 456 |
| Perpetual subordinated notes | - | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 124 | - | 967 | - | - | 377 | 1,468 | 1,468 |
| Total financial liabilities | 2,550 | 8,278 | 967 | - | - | 40,444 | 52,239 | 52,763 |

Notes to the financial statements

Note 28 Fair value of financial instruments (continued)

| The Banking Group | | | | | | | | |
|---|--|--|----------------|---------------------------------|--|---|------------------------------------|--------------------------------|
| 31 March 2009 – Unaudited | | | | | | | | |
| | Classified at Fair Value through Profit or Loss | | | | Available- for-Sale Financial Assets \$m | Financial Liabilities at Amortised Cost \$m | Total Carrying Amount \$m | Estimated Fair Value \$m |
| | Held for Trading \$m | Designated upon Initial Recognition \$m | Hedging \$m | Loans and Receivables \$m | | | | |
| Financial assets | | | | | | | | |
| Cash and balances with central banks | - | - | - | 320 | - | - | 320 | 320 |
| Due from other financial institutions | - | - | - | 3 | - | - | 3 | 3 |
| Derivative financial instruments | 26 | - | - | - | - | - | 26 | 26 |
| Trading securities and other financial assets designated at fair value | 4,652 | - | - | - | - | - | 4,652 | 4,652 |
| Available-for-sale securities | - | - | - | - | 38 | - | 38 | 38 |
| Loans | - | - | - | 47,793 | - | - | 47,793 | 48,434 |
| Due from related entities | - | - | - | 453 | - | - | 453 | 453 |
| Other assets | - | - | - | 157 | - | - | 157 | 157 |
| Total financial assets | 4,678 | - | - | 48,726 | 38 | - | 53,442 | 54,083 |
| Financial liabilities | | | | | | | | |
| Deposits at fair value | 4,069 | - | - | - | - | - | 4,069 | 4,069 |
| Deposits at amortised cost | - | - | - | - | - | 28,619 | 28,619 | 28,703 |
| Trading liabilities and other financial liabilities designated at fair value | 2,297 | - | - | - | - | - | 2,297 | 2,297 |
| Debt issues | - | 9,739 | - | - | - | 1,753 | 11,492 | 11,533 |
| Other liabilities | - | - | - | - | - | 446 | 446 | 446 |
| Perpetual subordinated notes | - | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 306 | - | 830 | - | - | 1,448 | 2,584 | 2,584 |
| Total financial liabilities | 6,672 | 9,739 | 830 | - | - | 33,236 | 50,477 | 50,602 |

| The Banking Group | | | | | | | | |
|---|--|--|----------------|---------------------------------|--|---|------------------------------------|--------------------------------|
| 30 September 2009 – Unaudited | | | | | | | | |
| | Classified at Fair Value through Profit or Loss | | | | Available- for-Sale Financial Assets \$m | Financial Liabilities at Amortised Cost \$m | Total Carrying Amount \$m | Estimated Fair Value \$m |
| | Held for Trading \$m | Designated upon Initial Recognition \$m | Hedging \$m | Loans and Receivables \$m | | | | |
| Financial assets | | | | | | | | |
| Cash and balances with central banks | - | - | - | 213 | - | - | 213 | 213 |
| Due from other financial institutions | - | - | - | 3 | - | - | 3 | 3 |
| Derivative financial instruments | 22 | - | - | - | - | - | 22 | 22 |
| Trading securities and other financial assets designated at fair value | 4,421 | - | - | - | - | - | 4,421 | 4,421 |
| Available-for-sale securities | - | - | - | - | 37 | - | 37 | 37 |
| Loans | - | - | - | 48,174 | - | - | 48,174 | 48,565 |
| Due from related entities | - | - | - | 576 | - | - | 576 | 576 |
| Other assets | - | - | - | 142 | - | - | 142 | 142 |
| Total financial assets | 4,443 | - | - | 49,108 | 37 | - | 53,588 | 53,979 |
| Financial liabilities | | | | | | | | |
| Deposits at fair value | 3,468 | - | - | - | - | - | 3,468 | 3,468 |
| Deposits at amortised cost | - | - | - | - | - | 29,027 | 29,027 | 29,079 |
| Trading liabilities and other financial liabilities designated at fair value | 1,885 | - | - | - | - | - | 1,885 | 1,885 |
| Debt issues | - | 6,082 | - | - | - | 6,287 | 12,369 | 12,540 |
| Other liabilities | - | - | - | - | - | 494 | 494 | 494 |
| Perpetual subordinated notes | - | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 514 | - | 1,141 | - | - | 771 | 2,426 | 2,426 |
| Total financial liabilities | 5,867 | 6,082 | 1,141 | - | - | 37,549 | 50,639 | 50,862 |

Note 28 Fair value of financial instruments (continued)

| The Bank | | | | | | | |
|--|--------------|-----------------------|-------------------------------------|---|-----------------------|----------------------|---------------|
| 31 March 2010 – Unaudited | | | | | | | |
| Classified at Fair Value through Profit or Loss – Held for Trading | Hedging | Loans and Receivables | Available-for-Sale Financial Assets | Financial Liabilities at Amortised Cost | Total Carrying Amount | Estimated Fair Value | |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | | |
| Cash and balances with central banks | - | - | 239 | - | - | 239 | 239 |
| Derivative financial instruments | 18 | - | - | - | - | 18 | 18 |
| Trading securities and other financial assets designated at fair value | 4,609 | - | - | - | - | 4,609 | 4,609 |
| Available-for-sale securities | - | - | - | 56 | - | 56 | 56 |
| Loans | - | - | 49,215 | - | - | 49,215 | 49,367 |
| Due from related entities | - | - | 8,351 | - | - | 8,351 | 8,351 |
| Other assets | - | - | 151 | - | - | 151 | 151 |
| Total financial assets | 4,627 | - | 57,956 | 56 | - | 62,639 | 62,791 |
| Financial liabilities | | | | | | | |
| Deposits at fair value | 2,426 | - | - | - | - | 2,426 | 2,426 |
| Deposits at amortised cost | - | - | - | - | 29,870 | 29,870 | 29,937 |
| Debt issues | - | - | - | - | 2,251 | 2,251 | 2,435 |
| Other liabilities | - | - | - | - | 411 | 411 | 411 |
| Perpetual subordinated notes | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 124 | 967 | - | - | 22,738 | 23,829 | 23,829 |
| Total financial liabilities | 2,550 | 967 | - | - | 56,240 | 59,757 | 60,008 |

| The Bank | | | | | | | |
|--|--------------|-----------------------|-------------------------------------|---|-----------------------|----------------------|---------------|
| 31 March 2009 – Unaudited | | | | | | | |
| Classified at Fair Value through Profit or Loss – Held for Trading | Hedging | Loans and Receivables | Available-for-Sale Financial Assets | Financial Liabilities at Amortised Cost | Total Carrying Amount | Estimated Fair Value | |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | | |
| Cash and balances with central banks | - | - | 320 | - | - | 320 | 320 |
| Derivative financial instruments | 26 | - | - | - | - | 26 | 26 |
| Trading securities and other financial assets designated at fair value | 4,652 | - | - | - | - | 4,652 | 4,652 |
| Available-for-sale securities | - | - | - | 38 | - | 38 | 38 |
| Loans | - | - | 47,621 | - | - | 47,621 | 48,262 |
| Due from related entities | - | - | 8,385 | - | - | 8,385 | 8,385 |
| Other assets | - | - | 154 | - | - | 154 | 154 |
| Total financial assets | 4,678 | - | 56,480 | 38 | - | 61,196 | 61,837 |
| Financial liabilities | | | | | | | |
| Deposits at fair value | 4,069 | - | - | - | - | 4,069 | 4,069 |
| Deposits at amortised cost | - | - | - | - | 28,619 | 28,619 | 28,703 |
| Trading liabilities and other financial liabilities designated at fair value | 2,297 | - | - | - | - | 2,297 | 2,297 |
| Debt issues | - | - | - | - | 1,753 | 1,753 | 1,789 |
| Other liabilities | - | - | - | - | 410 | 410 | 410 |
| Perpetual subordinated notes | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 306 | 830 | - | - | 19,157 | 20,293 | 20,293 |
| Total financial liabilities | 6,672 | 830 | - | - | 50,909 | 58,411 | 58,531 |

Note 28 Fair value of financial instruments (continued)

| The Bank | | | | | | | |
|--|---|----------------|---------------------------------|--|---|------------------------------------|--------------------------------|
| 30 September 2009 – Unaudited | | | | | | | |
| | Classified at Fair Value through Profit or Loss – Held for Trading \$m | Hedging \$m | Loans and Receivables \$m | Available- for-Sale Financial Assets \$m | Financial Liabilities at Amortised Cost \$m | Total Carrying Amount \$m | Estimated Fair Value \$m |
| Financial assets | | | | | | | |
| Cash and balances with central banks | - | - | 212 | - | - | 212 | 212 |
| Derivative financial instruments | 22 | - | - | - | - | 22 | 22 |
| Trading securities and other financial assets designated at fair value | 4,421 | - | - | - | - | 4,421 | 4,421 |
| Available-for-sale securities | - | - | - | 37 | - | 37 | 37 |
| Loans | - | - | 48,015 | - | - | 48,015 | 48,405 |
| Due from related entities | - | - | 8,129 | - | - | 8,129 | 8,129 |
| Other assets | - | - | 139 | - | - | 139 | 139 |
| Total financial assets | 4,443 | - | 56,495 | 37 | - | 60,975 | 61,365 |
| Financial liabilities | | | | | | | |
| Deposits at fair value | 3,468 | - | - | - | - | 3,468 | 3,468 |
| Deposits at amortised cost | - | - | - | - | 29,011 | 29,011 | 29,062 |
| Trading liabilities and other financial liabilities designated at fair value | 1,885 | - | - | - | - | 1,885 | 1,885 |
| Debt issues | - | - | - | - | 2,203 | 2,203 | 2,338 |
| Other liabilities | - | - | - | - | 441 | 441 | 441 |
| Perpetual subordinated notes | - | - | - | - | 970 | 970 | 970 |
| Due to related entities | 514 | 1,141 | - | - | 18,581 | 20,236 | 20,270 |
| Total financial liabilities | 5,867 | 1,141 | - | - | 51,206 | 58,214 | 58,434 |

Determination of fair value

There are three primary methods of determining fair value according to the following hierarchy:

- **Quoted market price (Level 1)**

This valuation methodology uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis.

- **Valuation technique using observable inputs (Level 2)**

Where quoted market prices are not available, inputs including quoted prices for similar assets and liabilities in active markets and other inputs that are observable for the asset or liability held are used in a widely accepted valuation model. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

- **Valuation technique with significant non-observable inputs (Level 3)**

Valuation techniques where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions at the balance sheet date. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. When the discount rate is set at a spread to the standard discount rate, the spread data may be unobservable. Default rates and recovery rates may be unobservable, depending on the frequency of trade in the markets. Future prepayment rates are considered unobservable.

As at 31 March 2010 there were no material amounts of financial assets and financial liabilities in the Banking Group and the Bank where the fair value had been derived using non-market observable inputs (31 March 2009: nil, 30 September 2009: nil).

Due to the number of different valuation models used and the underlying assumptions made regarding inputs selected, such as timing and amounts of future cash flows, discount rates, credit risk and volatility, it is often difficult to compare the fair value information disclosed here, against the fair value information disclosed by other financial institutions.

The fair values of large holdings of financial instruments are based on a multiple of the estimated value of a single instrument, and do not include block adjustments for the size of the holding.

The fair values disclosed in this note represent estimates at which the instruments could be exchanged. However, the intention is to hold many of these instruments to maturity and thus it is possible that the realised amount may differ from the amounts disclosed in the tables below.

There were no material amounts of change in fair value, estimated using a valuation technique, but incorporating significant non-observable inputs, that were recognised in the income statement during the six months ended 31 March 2010 in the Banking Group and the Bank (31 March 2009: nil, 30 September 2009: nil).

There have been no significant transfers between Levels 1 and 2 during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil). There has also been no significant transfers into/out of Level 3 during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Note 28 Fair value of financial instruments (continued)

The tables below summarise the basis for the determination of the fair value of financial instruments that are measured at fair value after initial recognition:

| | The Banking Group | | | The Bank | | |
|--|--|--|---------------------------|--|--|---------------------------|
| | 31 March 2010 | | | 31 March 2010 | | |
| | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m |
| Financial assets | | | | | | |
| Derivative financial instruments | - | 18 | 18 | - | 18 | 18 |
| Trading securities and other financial assets designated at fair value | - | 4,609 | 4,609 | - | 4,609 | 4,609 |
| Available-for-sale securities | 56 | - | 56 | 56 | - | 56 |
| Total financial assets carried at fair value | 56 | 4,627 | 4,683 | 56 | 4,627 | 4,683 |
| Financial liabilities | | | | | | |
| Deposits at fair value | - | 2,426 | 2,426 | - | 2,426 | 2,426 |
| Debt issues at fair value | - | 8,278 | 8,278 | - | - | - |
| Due to related entities | - | 1,091 | 1,091 | - | 1,091 | 1,091 |
| Total financial liabilities carried at fair value | - | 11,795 | 11,795 | - | 3,517 | 3,517 |

| | The Banking Group | | | The Bank | | |
|--|--|--|---------------------------|--|--|---------------------------|
| | 31 March 2009 | | | 31 March 2009 | | |
| | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m |
| Financial assets | | | | | | |
| Derivative financial instruments | - | 26 | 26 | - | 26 | 26 |
| Trading securities and other financial assets designated at fair value | - | 4,652 | 4,652 | - | 4,652 | 4,652 |
| Available-for-sale securities | 38 | - | 38 | 38 | - | 38 |
| Total financial assets carried at fair value | 38 | 4,678 | 4,716 | 38 | 4,678 | 4,716 |
| Financial liabilities | | | | | | |
| Deposits at fair value | - | 4,069 | 4,069 | - | 4,069 | 4,069 |
| Trading liabilities and other financial liabilities designated at fair value | - | 2,297 | 2,297 | - | 2,297 | 2,297 |
| Debt issues at fair value | - | 9,739 | 9,739 | - | - | - |
| Due to related entities | - | 1,136 | 1,136 | - | 1,136 | 1,136 |
| Total financial liabilities carried at fair value | - | 17,241 | 17,241 | - | 7,502 | 7,502 |

| | The Banking Group | | | The Bank | | |
|--|--|--|---------------------------|--|--|---------------------------|
| | 30 September 2009 | | | 30 September 2009 | | |
| | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m | Quoted Market Prices Unaudited \$m | Techniques (Market Observable) Unaudited \$m | Total Unaudited \$m |
| Financial assets | | | | | | |
| Derivative financial instruments | - | 22 | 22 | - | 22 | 22 |
| Trading securities and other financial assets designated at fair value | - | 4,421 | 4,421 | - | 4,421 | 4,421 |
| Available-for-sale securities | 37 | - | 37 | 37 | - | 37 |
| Total financial assets carried at fair value | 37 | 4,443 | 4,480 | 37 | 4,443 | 4,480 |
| Financial liabilities | | | | | | |
| Deposits at fair value | - | 3,468 | 3,468 | - | 3,468 | 3,468 |
| Trading liabilities and other financial liabilities designated at fair value | - | 1,885 | 1,885 | - | 1,885 | 1,885 |
| Debt issues at fair value | - | 6,082 | 6,082 | - | - | - |
| Due to related entities | - | 1,655 | 1,655 | - | 1,655 | 1,655 |
| Total financial liabilities carried at fair value | - | 13,090 | 13,090 | - | 7,008 | 7,008 |

Note 29 Commitments and contingent liabilities

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Commitments for capital expenditure | | | | | | |
| Due within one year | 69 | 36 | 25 | 69 | 36 | 25 |
| Other expenditure commitments: | | | | | | |
| One year or less | 61 | 64 | 62 | 61 | 64 | 62 |
| Between one and five years | 106 | 163 | 134 | 106 | 163 | 134 |
| Over five years | 4 | 4 | 4 | 4 | 4 | 4 |
| Total other expenditure commitments | 171 | 231 | 200 | 171 | 231 | 200 |
| Lease commitments (all leases are classified as operating leases) | | | | | | |
| Premises and sites | 188 | 210 | 203 | 188 | 210 | 203 |
| Motor vehicles | 4 | 3 | 4 | 4 | 3 | 4 |
| Total lease commitments | 192 | 213 | 207 | 192 | 213 | 207 |
| Lease commitments are due as follows: | | | | | | |
| One year or less | 37 | 21 | 39 | 37 | 21 | 39 |
| Between one and five years | 77 | 97 | 86 | 77 | 97 | 86 |
| Over five years | 78 | 95 | 82 | 78 | 95 | 82 |
| Total lease commitments | 192 | 213 | 207 | 192 | 213 | 207 |
| Other contingent liabilities and commitments | | | | | | |
| Direct credit substitutes | 43 | 54 | 45 | 43 | 54 | 45 |
| Housing loan commitments with certain drawdown | 143 | 147 | 208 | 143 | 147 | 208 |
| Transaction related contingent items | 253 | 277 | 279 | 253 | 277 | 279 |
| Short-term, self liquidating trade related contingent liabilities | 645 | 734 | 678 | 645 | 734 | 678 |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,909 | 6,395 | 6,502 | 5,909 | 6,395 | 6,502 |
| Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time | 4,473 | 4,031 | 3,978 | 4,473 | 4,031 | 3,978 |
| Total other contingent liabilities and commitments | 11,466 | 11,638 | 11,690 | 11,466 | 11,638 | 11,690 |

Comparative numbers for the Banking Group and the Bank have been restated as a result of continuing analysis of the underlying commitments and contingent liability data.

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 Bank guarantees commercial paper and other debt securities issued by Westpac Securities NZ Limited the proceeds of which, in accordance with Reserve Bank guidelines, are immediately on-lent to the Bank. Guarantees outstanding as at 31 March 2010 were New Zealand dollar equivalent \$14,578 million (31 March 2009: \$9,739 million, 30 September 2009: \$10,168 million).

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.

On 23 December 2009, the NZ Branch and relevant subsidiaries reached a settlement with the New Zealand Commissioner of Inland Revenue of the previously reported proceedings relating to nine structured finance transactions undertaken between 1998 and 2002. All proceedings have been discontinued and the terms of the settlement are subject to confidentiality. The payment of any tax under the settlement rests with the Ultimate Parent Bank.

The Bank leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the Bank upon vacation of all leased premises subject to these provisions as at 31 March 2010 was estimated to be \$22 million (31 March 2009: \$22 million, 30 September 2009: \$22 million). No amount has been recognised as the Bank believes it is highly unlikely that it would incur a material operating loss as a result of this in the normal course of its business operations.

Note 29 Commitments and contingent liabilities (continued)

Other commitments

As at 31 March 2010, the Banking Group had commitments in respect of interest swap transactions, provision of credit, underwriting facilities and other engagements 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 (please refer to Note 37). Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions.

Note 30 Segment information

The Banking Group operates predominantly in the consumer banking and business 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 management and legal structure. 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.

With the adoption of NZ IFRS 8 *Operating Segments*, the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors that the Banking Group operates in New Zealand and aligns with internal reporting to key management personnel.

The Banking Group does not rely on a major customer for its revenue basis.

The detailed definition of each segment is described below.

Operating segments

The 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 size enterprise customers, corporates and agricultural businesses;
- Retail Banking, provides financial services for private individuals; and
- Wealth Business, provides financial services for high net worth individuals, funds management and insurance distribution.

Retail Banking and Wealth Business have been aggregated and disclosed as the Consumer Banking operating segment.

Reconciling items primarily represent:

- non-material segments that do not meet the definition of reportable segments under NZ IFRS 8 *Operating Segments*;
- 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 are excluded for management reporting purposes but included as part of the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

The comparative information has been prepared based on the requirements of the NZ IFRS 8 *Operating Segments*.

| | The Banking Group | | | |
|--|--|----------------------------|-----------------------------|------------------------------|
| | Six Months Ended 31 March 2010 – Unaudited | | | |
| | Business Banking \$m | Consumer Banking \$m | Reconciling Items \$m | Total Consolidated \$m |
| Revenue from external customers ¹ | 864 | 1,628 | (604) | 1,888 |
| Internal revenue | 2 | 1 | (3) | - |
| Total segment revenue | 866 | 1,629 | (607) | 1,888 |
| Net interest income | 204 | 326 | 39 | 569 |
| Non-interest income | 42 | 134 | (30) | 146 |
| Net operating income | 246 | 460 | 9 | 715 |
| Depreciation | - | (1) | (8) | (9) |
| Software amortisation costs | - | - | (20) | (20) |
| Other operating expenses | (32) | (100) | (180) | (312) |
| Total operating expenses | (32) | (101) | (208) | (341) |
| Impairment charges on loans | (74) | (122) | (11) | (207) |
| Profit/(loss) before income tax expense | 140 | 237 | (210) | 167 |
| Income tax expense | (42) | (68) | 59 | (51) |
| Profit/(loss) after income tax expense | 98 | 169 | (151) | 116 |
| Profit/(loss) after income tax expense attributable to: | | | | |
| Head office account and owners of the Banking Group | 98 | 168 | (151) | 115 |
| Non-controlling interests | - | 1 | - | 1 |
| | 98 | 169 | (151) | 116 |
| Total gross loans | 20,944 | 29,232 | (135) | 50,041 |
| Total deposits | 9,320 | 20,654 | 2,561 | 32,535 |

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

Notes to the financial statements

Note 30 Segment information (continued)

| | The Banking Group | | | |
|--|--|--|---|------------------------------|
| | Six Months Business Banking \$m | Ended 31 Consumer Banking \$m | March 2009 – Unaudited Reconciling Items \$m | Total Consolidated \$m |
| Revenue from external customers ¹ | 1,116 | 2,009 | (795) | 2,330 |
| Internal revenue | 3 | 1 | (4) | - |
| Total segment revenue | 1,119 | 2,010 | (799) | 2,330 |
| Net interest income | 223 | 342 | 135 | 700 |
| Non-interest income | 46 | 154 | (15) | 185 |
| Net operating income | 269 | 496 | 120 | 885 |
| Depreciation | - | (1) | (8) | (9) |
| Software amortisation costs | - | - | (22) | (22) |
| Other operating expenses | (29) | (103) | (178) | (310) |
| Total operating expenses | (29) | (104) | (208) | (341) |
| Impairment charges on loans | (126) | (66) | (124) | (316) |
| Profit/(loss) before income tax expense | 114 | 326 | (212) | 228 |
| Income tax expense | (34) | (93) | 61 | (66) |
| Profit/(loss) after income tax expense | 80 | 233 | (151) | 162 |
| Profit/(loss) after income tax expense attributable to: | | | | |
| Head office account and owners of the Banking Group | 80 | 231 | (151) | 160 |
| Non-controlling interests | - | 2 | - | 2 |
| | 80 | 233 | (151) | 162 |
| Total gross loans | 20,284 | 27,801 | 267 | 48,352 |
| Total deposits | 8,009 | 20,105 | 4,574 | 32,688 |

| | The Banking Group | | | |
|--|----------------------------|----------------------------|-----------------------------|------------------------------|
| | Business Banking \$m | Consumer Banking \$m | Reconciling Items \$m | Total Consolidated \$m |
| Revenue from external customers ¹ | 1,983 | 3,688 | (1,320) | 4,351 |
| Internal revenue | 6 | 1 | (7) | - |
| Total segment revenue | 1,989 | 3,689 | (1,327) | 4,351 |
| Net interest income | 443 | 671 | 202 | 1,316 |
| Non-interest income | 90 | 308 | (35) | 363 |
| Net operating income | 533 | 979 | 167 | 1,679 |
| Depreciation | - | (2) | (18) | (20) |
| Software amortisation costs | - | - | (45) | (45) |
| Other operating expenses | (60) | (205) | (378) | (643) |
| Total operating expenses | (60) | (207) | (441) | (708) |
| Impairment charges on loans | (446) | (134) | (40) | (620) |
| Profit/(loss) before income tax expense | 27 | 638 | (314) | 351 |
| Income tax expense | (8) | (183) | 88 | (103) |
| Profit/(loss) after income tax expense | 19 | 455 | (226) | 248 |
| Profit/(loss) after income tax expense attributable to: | | | | |
| Head office account and owners of the Banking Group | 19 | 452 | (226) | 245 |
| Non-controlling interests | - | 3 | - | 3 |
| | 19 | 455 | (226) | 248 |
| Total gross loans | 20,293 | 28,236 | 165 | 48,694 |
| Total deposits | 8,738 | 20,109 | 3,648 | 32,495 |

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

Note 31 Superannuation commitments

The Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the Banking Group as required. The defined benefit scheme has been closed to new members since 1 April 1990. An actuarial valuation of the scheme is undertaken periodically, with the last actuarial assessment of the funding status undertaken as at 30 June 2009. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and contributions are made to the defined benefit scheme at the rate at 12% of members' salaries.

The Banking Group has no material obligations in respect of post-retirement benefits other than pensions.

Amounts recognised in the balance sheet arising from the Banking Group's obligations in respect of its defined benefit scheme are as follows:

| | The Banking Group and the Bank | | |
|---|--|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Benefit obligation at end of the period/year | 93 | 104 | 96 |
| Fair value of scheme assets at end of the period/year | 84 | 65 | 76 |
| Net recognised liability | 9 | 39 | 20 |
| Contribution tax | 5 | 17 | 10 |
| Net recognised liability including contribution tax | 14 | 56 | 30 |
| Movement in the net liability recognised in the balance sheet | | | |
| Opening liability with contribution tax | 30 | 64 | 64 |
| Superannuation expense with contribution tax | - | 1 | 2 |
| Employer contributions including contribution tax | (9) | (8) | (6) |
| Amount of gains recognised in equity with contribution tax | (7) | (1) | (30) |
| Closing liability with contribution tax | 14 | 56 | 30 |
| Superannuation expense recognised in the income statement: | | | |
| Current service cost | - | 1 | 1 |
| Interest cost | 2 | 2 | 5 |
| Expected return of fund assets | (2) | (2) | (5) |
| Net defined expense | - | 1 | 1 |
| Change in present value of defined benefit obligation: | | | |
| Benefit obligation at beginning of the period/year | 96 | 117 | 117 |
| Current service cost | - | 1 | 1 |
| Interest cost | 2 | 2 | 5 |
| Actuarial loss | (2) | (12) | (20) |
| Benefits paid | (3) | (4) | (8) |
| Exchange and other adjustments | - | - | 1 |
| Benefit obligation at end of the period/year | 93 | 104 | 96 |
| Change in fair value of scheme assets: | | | |
| Fair value of scheme assets at beginning of the period/year | 76 | 74 | 74 |
| Expected return on scheme assets | 2 | 2 | 5 |
| Employer contributions | 6 | 4 | 5 |
| Actuarial gain/(loss) | 3 | (11) | - |
| Benefits paid | (3) | (4) | (8) |
| Fair value of scheme assets at end of the period/year | 84 | 65 | 76 |
| Amounts recognised in equity | | | |
| Cumulative amount of loss recognised in equity at beginning of the period/year | - | 20 | 20 |
| Immediate recognition of loss/(gain) | 5 | - | (20) |
| Cumulative amount of loss recognised in equity at end of the period/year | 5 | 20 | - |
| Value of scheme assets | | | |
| Invested in Ultimate Parent Bank's debt and equity securities | 7 | 7 | 6 |
| Actual return on scheme assets | 5 | (9) | 5 |
| Expected employer contributions (net) | - | - | 6 |

Note 31 Superannuation commitments (continued)

| | The Banking Group and the Bank | | |
|--|------------------------------------|------------------------------------|--------------------------------------|
| | 31 March 2010 Unaudited % | 31 March 2009 Unaudited % | 30 September 2009 Audited % |
| Primary actuarial assumptions used in the above calculations: | | | |
| Discount rate | 4.3 | 4.0 | 4.0 |
| Expected return on scheme assets – active members (end of period/year) | 6.4 | 6.0 | 6.4 |
| Expected return on scheme assets – pensioners | 6.4 | 6.0 | 6.4 |
| Rate of increase in salaries | 2.0 | 2.0 | 2.0 |
| Rate of increase for pensions | 1.5 | 1.5 | 1.5 |
| Asset allocation | | | |
| Cash | 0.8 | 1.6 | 1.3 |
| Equity instruments | 58.4 | 52.4 | 57.9 |
| Debt instruments | 40.8 | 46.0 | 40.8 |
| Total asset allocation | 100.0 | 100.0 | 100.0 |

| | The Banking Group and the Bank | | | | |
|---|---|---|---|---|---|
| | Six Months Ended 31 March 2010 Unaudited \$m | Year Ended 30 September 2009 Audited \$m | Year Ended 30 September 2008 Audited \$m | Year Ended 30 September 2007 Audited \$m | Year Ended 30 September 2006 Audited \$m |
| Historical summary | | | | | |
| Defined benefit scheme obligations | 93 | 96 | 117 | 110 | 131 |
| Scheme assets | 84 | 76 | 74 | 99 | 113 |
| Net deficit | 9 | 20 | 43 | 11 | 18 |
| Experience adjustments on scheme assets | 2 | - | (23) | 2 | 8 |
| Experience adjustments on scheme liabilities | 3 | 20 | (10) | 1 | 2 |

Expected rate of return on assets assumptions

The assumed return on assets reflects the average rate of earnings expected in the long-term on the scheme's assets. Accordingly, this rate reflects allowances for tax and all investment expenses. The expected returns on assets were calculated as the weighted average return based on the benchmark asset allocation and estimates of the expected future return in each sector in each asset class (consistent with the inflation assumption).

Note 32 Key management personnel disclosures

Key management personnel compensation

Key management personnel are defined as being Directors and senior management of the Banking Group. The information relating to the key management personnel disclosed includes transactions with those individuals, their close family members and their controlled entities.

| | The Banking Group and The Bank | | |
|--|--|--|--|
| | Six Months Ended 31 March 2010 Unaudited \$'000 | Six Months Ended 31 March 2009 Unaudited \$'000 | Year Ended 30 September 2009 Audited \$'000 |
| Salaries and other short-term benefits | 5,193 | 4,641 | 7,446 |
| Post-employment benefits | 497 | 422 | 636 |
| Other termination benefits | 349 | - | - |
| Share-based payments | 2,127 | 751 | 2,796 |
| Total key management compensation | 8,166 | 5,814 | 10,878 |

The Directors have received remuneration from the Banking Group and these amounts are included in the table above.

Loans and deposits with key management personnel

All loans and deposits are made in the ordinary course of business of the Bank and the Banking Group, on an arm's length basis and on normal commercial terms and conditions. Loans are on terms of repayment that range between variable, fixed rate up to five years and interest only loans, all of which are in accordance with the Banking Group's lending policies.

As at 31 March 2010, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 March 2009: nil, 30 September 2009: nil).

Other related party transactions

All other transactions with key management personnel, their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

Note 33 Share-based payments

Selected executives and senior managers of the Bank participate in the Ultimate Parent Bank's equity settled share-based compensation plans which are the Westpac Reward Plan ('WRP') and the Westpac Performance Plan ('WPP'). The Bank compensates the Ultimate Parent Bank for the equity granted to employees.

(i) Westpac Reward Plan

The WRP was approved by shareholders at the Ultimate Parent Bank's 2006 Annual General Meeting. It provides the Ultimate Parent Bank with a mechanism for driving superior long-term performance from the most senior management in Australia, New Zealand and other countries.

Under the WRP, senior managers may be invited to receive an award of performance share rights. The exercise price for performance share rights is nil. The share rights may vest over a three to five-year period from the commencement of the performance period, provided a performance hurdle of relative Total Shareholder Return ('TSR')¹ is met or exceeded by the Ultimate Parent Bank. The comparator group for TSR focuses on 10 Australian financial sector peers. Full vesting of performance share rights occurs when the Ultimate Parent Bank's TSR is at (or exceeds) the 75th percentile relative to the comparator group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance, no vesting occurs.

For the Banking Group employees, performance options with a three to five-year vesting period were granted under the WRP until March 2009 and these continue to run their course. The exercise price for the performance options was set at the time of invitation based on a five-day weighted average price of the ordinary shares of the Ultimate Parent Bank.

The WRP vesting framework has been designed to strengthen the performance link over the longer term. Initial TSR performance is tested at the third anniversary of the commencement of the performance period, with subsequent performance testing possible at the fourth and fifth anniversaries of commencement of the performance period. Securities vest only if the Ultimate Parent Bank's TSR ranking is at or above the median of the comparator group at a performance test date. TSR performance is tested at subsequent performance test dates (where they exist) and further vesting may occur only if the TSR ranking has improved. The model encourages executives to focus on performance over the full five-year period.

Performance share rights and options will lapse where an employee leaves the Ultimate Parent Bank Group before the securities vest due to resignation or dismissal, unless the Board determines otherwise.

Upon exercising vested performance options or performance share rights, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price of a performance option is payable at that time. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

WRP Performance options

The following table sets out the details of outstanding performance options granted to employees of the Bank under the WRP:

| Commencement Date | Latest Date for Exercise | Exercise Price A\$ | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period |
|--|--------------------------|--------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|
| 17 December 2007 | 17 December 2017 | 30.10 | 74,852 | (13,473) | - | - | - | 61,379 | - |
| 1 October 2008 | 1 October 2018 | 23.40 | 90,214 | (16,642) | - | - | - | 73,572 | - |
| 1 March 2009 | 1 March 2019 | 16.49 | 260,869 | - | - | - | - | 260,869 | - |
| Totals for the period ended 31 March 2010 | | | 425,935 | (30,115) | - | - | - | 395,820 | - |
| Weighted average exercise price (\$) | | | 20.35 | 26.40 | - | - | - | 19.88 | - |
| Totals for the period ended 31 March 2009 | | | 74,852 | - | 351,083 | - | - | 425,935 | - |
| Weighted average exercise price (\$) | | | 31.10 | - | 18.27 | - | - | 20.35 | - |
| Totals for the year ended 30 September 2009 | | | 74,852 | - | 351,083 | - | - | 425,935 | - |
| Weighted average exercise price (\$) | | | 31.10 | - | 18.27 | - | - | 20.35 | - |

The weighted average remaining contractual life of outstanding performance options at 31 March 2010 was 8.7 years (31 March 2009: 9.7 years, 30 September 2009: 9.2 years).

WRP Performance share rights

The following table sets out the details of outstanding performance share rights granted to employees of the Bank under the WRP:

| Commencement Date | Latest Date for Exercise | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period |
|--|--------------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|
| 1 October 2009 | 1 October 2019 | - | - | 51,180 | - | - | 51,180 | - |
| Totals for the period ended 31 March 2010 | | - | - | 51,180 | - | - | 51,180 | - |
| Totals for the period ended 31 March 2009 | | - | - | - | - | - | - | - |
| Totals for the year ended 30 September 2009 | | - | - | - | - | - | - | - |

The weighted average fair value at the grant date of performance share rights issued during the period was \$15.31 per right (31 March 2009: nil, 30 September 2009: nil). The weighted average remaining contractual life of outstanding performance share rights at 31 March 2010 was 9.5 years (31 March 2009: nil years, 30 September 2009: nil years).

¹ TSR measures a company's share price movement and accumulated dividend yields over a specific measurement period (i.e. the change in value of an investment in that company's shares) and excluding tax effects.

Note 33 Share-based payments (continued)

(ii) Westpac Performance Plan

For the Banking Group employees, the WPP is currently used to provide long-term incentive awards or as a mechanism for the mandatory deferral of a portion of their short-term incentive in the form of share rights. These share rights are restricted for a period of one to three years, and vest subject to service conditions. Vested share rights can then be exercised to receive the underlying fully paid ordinary shares in the Ultimate Parent Bank. The exercise price for share rights is nil.

For the Banking Group employees, performance options with a three to five-year vesting period were granted under the WPP up until December 2006 and these continue to run their course. The exercise price for the performance options was set at the time of invitation based on a five-day weighted average price of the ordinary shares of the Ultimate Parent Bank.

Awards of options or share rights under the WPP have a life of up to ten years from the grant date. A share right or an option lapses if it is not exercised prior to the end of its life.

Performance options and performance share rights

Performance options and performance share rights granted under the WPP to the Banking Group employees from 20 January 2003 to 15 December 2006 vest after a period of two to five years, but only if the performance hurdle has been met. The performance hurdle compares the Ultimate Parent Bank's TSR against the TSR of a defined ranking group of other companies.

- For grants made up to November 2005, the ranking group is the 50 largest companies listed on the ASX by market capitalisation at the commencement of the performance period (excluding the Ultimate Parent Bank, property and investment trusts and certain specified resource companies).
- For grants made from December 2005 to December 2006, 50% of the award is assessed against a TSR ranking group of the top 10 of the largest 13 Australian banking and financial sector companies by market capitalisation at the time of grant (excluding the Ultimate Parent Bank). The other 50% assesses TSR performance against a ranking group of the 50 largest companies on the ASX by market capitalisation at the time of grant (excluding the Ultimate Parent Bank, specified resource companies and the first ranking group).

Full vesting of performance options and performance share rights occurs when the Ultimate Parent Bank's relative TSR is at (or exceeds) the 75th percentile of the ranking group, scaling down to 50% vesting on a straight-line basis for median performance. In the event of below median performance, no vesting occurs.

Upon exercising vested performance options or performance share rights, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time.

WPP Performance options

| Commencement Date | Latest Date for Exercise | Exercise Price A\$ | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period |
|--|--------------------------|--------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|
| 21 January 2004 | 21 January 2014 | 16.34 | 27,106 | - | - | - | - | 27,106 | 27,106 |
| 20 January 2005 | 20 January 2015 | 18.98 | 22,474 | - | - | - | - | 22,474 | 22,474 |
| 20 December 2005 | 20 December 2015 | 20.53 | 41,812 | - | - | - | - | 41,812 | 41,812 |
| 15 December 2006 | 15 December 2016 | 23.98 | 64,047 | (21,349) | - | - | - | 42,698 | 42,698 |
| Totals for the period ended 31 March 2010 | | | 155,439 | (21,349) | - | - | - | 134,090 | 134,090 |
| Weighted average exercise price (\$) | | | 21.00 | 23.98 | - | - | - | 20.52 | 20.52 |
| Totals for the period ended 31 March 2009 | | | 169,627 | - | - | (1,198) | (2,956) | 165,473 | 49,800 |
| Weighted average exercise price (\$) | | | 20.06 | - | - | 16.34 | 22.84 | 20.04 | 17.46 |
| Totals for the year ended 30 September 2009 | | | 169,627 | - | - | (6,236) | (7,952) | 155,439 | 91,392 |
| Weighted average exercise price (\$) | | | 20.06 | - | - | 18.21 | 21.67 | 21.00 | 18.91 |

The weighted average remaining contractual life of outstanding performance options at 31 March 2010 was 5.5 years (31 March 2009: 6.5 years, 30 September 2009: 6.0 years).

WPP Performance share rights

| Commencement Date | Latest Date for Exercise | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period | |
|--|--------------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|---------------|
| 20 January 2003 | 20 January 2013 | 11,463 | - | - | - | - | 11,463 | 11,463 | |
| 21 January 2004 | 21 January 2014 | 30,246 | - | - | (14,919) | - | 15,327 | 15,327 | |
| 20 January 2005 | 20 January 2015 | 24,898 | - | - | (9,654) | - | 15,244 | 15,244 | |
| 20 December 2005 | 20 December 2015 | 47,960 | - | - | (11,924) | - | 36,036 | 34,370 | |
| 15 December 2006 | 15 December 2016 | 4,333 | - | - | - | - | 4,333 | 4,333 | |
| Totals for the period ended 31 March 2010 | | | 118,900 | - | - | (36,497) | - | 82,403 | 80,737 |
| Totals for the period ended 31 March 2009 | | | 219,787 | - | - | (36,067) | (2,994) | 180,726 | 118,900 |
| Totals for the year ended 30 September 2009 | | | 219,787 | - | - | (93,850) | (7,037) | 118,900 | 118,900 |

The weighted average share price of performance share rights exercised during the period was \$25.99 per right (31 March 2009: \$17.55 per right, 30 September 2009: \$18.71 per right). The weighted average remaining contractual life of outstanding performance share rights at 31 March 2010 was 4.8 years (31 March 2009: 5.8 years, 30 September 2009: 4.3 years).

Note 33 Share-based payments (continued)

WPP Unhurdled share rights

The WPP is also used for key Banking Group employees, who receive unhurdled share rights that vest after a set period of one to three years service with the Ultimate Parent Bank Group. After the restriction period applying to them has passed, vested unhurdled share rights can be exercised to receive the underlying fully paid ordinary shares. The exercise price for share rights is nil.

The following table summarises grants of unhurdled share rights to the employees of the Banking Group under the WPP:

| Commencement Date | Latest Date for Exercise | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period |
|--|--------------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|
| 15 December 2006 | 15 December 2016 | 104,105 | - | - | (40,235) | (838) | 63,032 | 63,032 |
| 2 April 2007 | 2 April 2017 | 1,577 | - | - | - | - | 1,577 | - |
| 3 September 2007 | 3 September 2017 | 6,660 | - | - | - | - | 6,660 | 6,660 |
| 1 November 2007 | 1 November 2017 | 1,862 | - | - | (1,862) | - | - | - |
| 17 December 2007 | 17 December 2017 | 112,561 | (2,309) | - | (6,484) | (4,014) | 99,754 | 7,691 |
| 1 July 2008 | 1 July 2018 | 10,752 | - | - | - | - | 10,752 | - |
| 1 September 2008 | 1 September 2018 | 2,399 | - | - | - | - | 2,399 | - |
| 1 October 2008 | 1 October 2018 | 68,342 | - | - | - | (1,545) | 66,797 | - |
| 1 December 2008 | 1 December 2018 | 10,868 | - | - | (7,848) | - | 3,020 | - |
| 1 January 2009 | 1 January 2019 | 6,677 | - | - | - | - | 6,677 | - |
| 1 February 2009 | 1 February 2019 | 3,014 | - | - | - | - | 3,014 | - |
| 1 March 2009 | 1 March 2019 | 140,140 | - | - | - | - | 140,140 | 58,117 |
| 1 June 2009 | 1 June 2019 | 5,681 | - | - | - | - | 5,681 | - |
| 1 October 2009 | 1 October 2019 | - | - | 118,712 | - | - | 118,712 | - |
| 1 November 2009 | 1 November 2019 | - | - | 42,859 | - | - | 42,859 | - |
| 1 January 2010 | 1 January 2020 | - | - | 6,446 | - | - | 6,446 | - |
| Totals for the period ended 31 March 2010 | | 474,638 | (2,309) | 168,017 | (56,429) | (6,397) | 577,520 | 135,500 |
| Totals for the period ended 31 March 2009 | | 284,056 | - | 328,745 | (8,586) | (2,421) | 601,794 | - |
| Totals for the year ended 30 September 2009 | | 284,056 | - | 334,426 | (9,089) | (134,755) | 474,638 | 6,660 |

The weighted average fair value at grant date of unhurdled share rights issued during the period was \$21.62 per right (31 March 2009: \$14.92 per right, 30 September 2009: \$16.69 per right). The weighted average share price of unhurdled share rights exercised during the period was \$23.81 per right (31 March 2009: \$17.55 per right, 30 September 2009: \$18.71 per right). The weighted average remaining contractual life of outstanding unhurdled share rights at 31 March 2010 was 8.5 years (31 March 2009: 7.5 years, 30 September 2009: 7.0 years).

(iii) Senior Officers' Share Purchase Scheme

The Senior Officers' Share Purchase Scheme ('SOSPS') was approved by shareholders in December 1998. The plan was closed to new invitations in 2002.

The plan provided for the allocation of share options to selected executives and senior officers to acquire fully paid ordinary shares issued by the Ultimate Parent Bank. No consideration was payable for the grant of an option. The exercise price for each option was based on the prevailing market price of the ordinary shares at the time of the invitation, and the options have a ten-year life. Options granted under the SOSPS were subject to a tenure-based hurdle.

Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares upon payment of the exercise price. If an option is not exercised prior to the end of its term, it lapses.

The following table sets out details of outstanding options granted under the SOSPS:

| Commencement Date | Latest Date for Exercise | Exercise Price A\$ | Outstanding at Beginning of the Period | Transfers During the Period | Granted During the Period | Exercised During the Period | Lapsed During the Period | Outstanding Number of Options at End of the Period | Outstanding and Exercisable at End of the Period |
|--|--------------------------|--------------------|--|-----------------------------|---------------------------|-----------------------------|--------------------------|--|--|
| 8 January 2001 | 8 January 2011 | 13.26 | 45,000 | - | - | - | - | 45,000 | 45,000 |
| 9 January 2002 | 9 January 2012 | 14.65 | 40,000 | - | - | - | - | 40,000 | 40,000 |
| Totals for the period ended 31 March 2010 | | | 85,000 | - | - | - | - | 85,000 | 85,000 |
| Weighted average exercise price (\$) | | | 13.91 | - | - | - | - | 13.91 | 13.91 |
| Totals for the period ended 31 March 2009 | | | 85,000 | - | - | - | - | 85,000 | 85,000 |
| Weighted average exercise price (\$) | | | 13.91 | - | - | - | - | 13.91 | 13.91 |
| Totals for the year ended 30 September 2009 | | | 85,000 | - | - | - | - | 85,000 | 85,000 |
| Weighted average exercise price (\$) | | | 13.91 | - | - | - | - | 13.91 | 13.91 |

The weighted average remaining contractual life of options at 31 March 2010 under the SOSPS was 1.2 years (31 March 2009: 2.2 years, 30 September 2009: 1.7 years).

Note 33 Share-based payments (continued)

Fair value at grant date

The fair value of performance share rights granted during the six months ended 31 March 2010 included in the tables above have been independently calculated at grant date using a Binomial/Monte Carlo simulation pricing model and for which:

- the assumptions included in the valuation of the awards of performance share rights under the WRP include a risk free interest rate of 4.99%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and a volatility in the Ultimate Parent Bank's share price of 30%;
- the assumptions included in the valuation of the awards of unhurdled share rights under the WPP include a risk free interest rate ranging from 4.2% to 4.7%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and a volatility in the Ultimate Parent Bank's ordinary share price of 30%;
- volatility has been assessed by considering the implied volatility of publicly traded options over the Ultimate Parent Bank's ordinary shares and the historic volatility of the market price of the Ultimate Parent Bank's shares;
- other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and the Ultimate Parent Bank, which are used to assess the impact of performance hurdles; and
- performance share rights have been valued assuming they will be exercised shortly after the vesting date.

Note 34 Securitisation, funds management and other fiduciary activities

Securitisation

As at 31 March 2010, the Bank and the Banking Group had securitised assets amounting to \$494 million (31 March 2009: \$573 million, 30 September 2009: \$523 million), all having been sold by the Bank and the Banking Group to the Westpac Home Loan Trust ('HLT') and the Westpac Mortgage Investment Fund ('MIF') via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Bank and the Banking Group receive fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Bank and the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties.

In addition, the Bank executed a \$5.0 billion internal mortgage-backed securitisation in October 2008, which increased to \$7.5 billion in December 2008. These securities are available for external issuance and the most senior rated securities (\$7.25 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank. Reflecting the underlying movement in loan balances in the facility, the Bank executed a \$1.5 billion substitution to the internal mortgage-backed securitisation programme in September 2009 to ensure the appropriate quality and total value able to be securitised were maintained. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions become difficult. It takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer securitised residential mortgage assets from their own balance sheets as collateral for the Reserve Bank's repurchase agreements.

Funds management and other fiduciary activities

The Bank markets the products of BT Funds Management (NZ) Limited, a member of the Ultimate Parent Bank Group, through its branch, advisory network and private bank. The Bank derives distribution fees from the sale of managed fund products, superannuation and unit trusts marketed on behalf of BT Funds Management (NZ) Limited. The Bank also provides investment advice to a number of clients, which includes the provision of other fiduciary activities.

Term PIE is administered by the Banking Group (refer to Note 26 for further details) and invests in deposits guaranteed under the New Zealand deposit guarantee scheme with the Bank. The Bank is considered to control Term PIE, and as such Term PIE is consolidated within the financial statements of the Banking Group. As at 31 March 2010 \$239 million (31 March 2009: nil, 30 September 2009: \$17 million) of funds under management were invested by Term PIE in the Bank's deposits.

Marketing and distribution of insurance products

The Bank markets and distributes both life and general insurance products. The life insurance products are underwritten by Westpac Life - NZ - Limited (a member of the Ultimate Parent Bank Group). The general insurance products are fully underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

Risk management

The Banking Group's risk management framework (refer to Note 37) will minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the six months ended 31 March 2010:

- financial services provided by any member of the Banking Group to entities which conduct the securitisation, funds management and other fiduciary activities described above, 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 from entities which conduct the 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 34 Securitisation, funds management and other fiduciary activities (continued)

Peak aggregate funding provided to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product marketing and distribution activities described in this note, during the three months ended 31 March 2010 (three months ended 31 March 2009: nil, three months ended 30 September 2009: nil).

The Banking Group provided funding to WNZSL, a member of the Banking Group involved in securitisation activities. This funding was provided on an intraday basis to facilitate the purchase of mortgages from the Bank in order to establish mortgage-backed securities under the internal mortgage-backed securitisation described above. As noted above, this was completed in two tranches, \$5.0 billion and \$2.5 billion. At all times during the quarter the end-of-day balance of funding provided was nil. The peak end-of-day aggregate amount of funding provided to WNZSL (which is also the peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above), during the three months ended 31 March 2010 was nil (three months ended 31 March 2009: nil, three months ended 30 September 2009: nil), and the peak end-of-day aggregate amount of funding provided to WNZSL expressed as percentage of the amount of WNZSL's assets was 0% (31 March 2009: 0%, 30 September 2009: 0%). The peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above expressed as percentage of the Banking Group's Tier One Capital was 0% (31 March 2009: 0%, 30 September 2009: 0%).

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the relevant three month period and then dividing that amount by the amount of WNZSL's assets or the Banking Group's Tier One Capital (as the case required) as at the end of the quarter.

Note 35 Insurance business

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

Note 36 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 preceding six months, the Banking Group had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group complies with externally imposed capital requirements and that the Banking Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Banking Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Three independent processes ensure that the Banking Group's capital is adequate to support its current and future activities:

1. The Banking Group's Board has approved a risk appetite statement. This statement outlines the target debt rating, the target capital ratios, and the degree of earnings volatility that is acceptable. The table below outlines the current target ratios.

| Current target capital structure | % |
|----------------------------------|-----|
| Minimum Tier One ratio | 6.8 |
| Minimum total regulatory ratio | 8.8 |

2. The Banking Group calculates the capital that is required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('BSR'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements made.

Summary of internal capital adequacy assessment process ('ICAAP')

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring that it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Prudential standard' (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.

Note 36 Capital adequacy (continued)

Banking Group capital summary

| | The Banking Group | |
|--|--------------------------------------|--------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m |
| Tier One Capital | | |
| Paid up share capital | 3,470 | 3,470 |
| Revenue and similar reserves ¹ | 313 | 12 |
| Current period/year's retained profits | 120 | 160 |
| Minority interests | 5 | 6 |
| Less deductions from Tier One Capital | | |
| Goodwill | (477) | (477) |
| Other intangible assets | (96) | (95) |
| Cash flow hedge reserve | 8 | 27 |
| Deferred tax asset deduction | (64) | - |
| Expected loss excess over eligible allowance | - | (57) |
| Total Tier One Capital | 3,279 | 3,046 |
| Tier Two Capital – Upper Tier Two Capital | | |
| Perpetual subordinated notes | 970 | 970 |
| Less deductions from Tier Two Capital | | |
| Expected loss excess over eligible allowance | - | (57) |
| Tier Two Capital – Lower Tier Two Capital | | |
| | - | - |
| Total Tier Two Capital | 970 | 913 |
| Total Capital | 4,249 | 3,959 |

¹ Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities reserve and prior periods' retained profits.

Basel II

The global capital adequacy regime, known as Basel II, represents a major step in the evolution of risk and capital management and in prudential supervision of banking systems. 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 Schedule 5B, Clause 14 of 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 March 2010 Unaudited % | 31 March 2009 Unaudited % |
| Capital adequacy ratios | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | 9.5 | 9.3 |
| Total Capital expressed as a percentage of risk-weighted exposures | 12.4 | 12.1 |
| Reserve Bank minimum ratios | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | 4.0 ¹ | 4.0 ¹ |
| Total Capital expressed as a percentage of risk-weighted exposures | 8.0 | 8.0 |

¹ In addition to this minimum 4%, 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. See the 'Wholesale Guarantee' section on page 6 for more information.

Basel I

The table below is disclosed in accordance with Schedule 5B, Clause 15 of the Order and 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 and 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.

Note 36 Capital adequacy (continued)

| | The Banking Group | | The Bank | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | 31 March 2010 Unaudited % | 31 March 2009 Unaudited % | 31 March 2010 Unaudited % | 31 March 2009 Unaudited % |
| Capital adequacy ratios | | | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | 8.9 | 8.7 | 7.3 | 6.7 |
| Total Capital expressed as a percentage of risk-weighted exposures | 11.6 | 11.5 | 9.5 | 8.9 |
| Total risk-weighted exposures (\$m) | 36,462 | 35,475 | 43,995 | 43,438 |

Banking Group Pillar I total capital requirement

| | Six Months Ended 31 March 2010 | | | Six Months Ended 31 March 2009 | | |
|------------------------|---|--|--|---|--|--|
| | Total Exposure After Credit Risk Mitigation Unaudited \$m | Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited \$m | Total Capital Requirement Unaudited \$m | Total Exposure After Credit Risk Mitigation Unaudited \$m | Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited \$m | Total Capital Requirement Unaudited \$m |
| Total credit risk | 66,349 | 28,621 | 2,288 | 62,443 | 27,667 | 2,213 |
| Operational risk | N/A | 3,128 | 250 | N/A | 2,440 | 195 |
| Market risk | N/A | 1,037 | 82 | N/A | 939 | 75 |
| Supervisory adjustment | N/A | 1,577 | 126 | N/A | 1,544 | 124 |
| Total | 66,349 | 34,363 | 2,746 | 62,443 | 32,590 | 2,607 |

The supervisory adjustment comprises the 15% scalar applied to mortgages and an adjustment to bring risk-weighted assets to 90% of adjusted Basel I capital, as per the Bank's conditions of registration.

Pillar II 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

Business risk reflects the risk associated with the vulnerability of a line of business to changes in the business environment.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.

Other asset risk

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 this "other material risk" is:

| | The Banking Group | |
|------------------------------------|--------------------------------------|--------------------------------------|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m |
| Internal capital allocation | | |
| Other material risk | 349 | 366 |

Ultimate Parent Bank Group Basel II capital adequacy ratios

| | The Banking Group | |
|---|------------------------------------|------------------------------------|
| | 31 March 2010 Unaudited % | 31 March 2009 Unaudited % |
| Ultimate Parent Bank Group¹ | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | 8.6 | 8.4 |
| Total Capital expressed as a percentage of risk-weighted exposures | 10.8 | 11.4 |
| Ultimate Parent Bank (Extended Licensed Entity)^{1, 2} | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | 8.9 | 10.5 |
| Total Capital expressed as a percentage of risk-weighted exposures | 11.4 | 13.4 |

¹ The capital ratios represent information mandated by 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.

Note 36 Capital adequacy (continued)

Basel II came into force on 1 January 2008. The Ultimate Parent Bank Group received accreditation from APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') and Advanced Measurement Approaches ('**AMA**') methodologies for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB methodology. 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 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 March 2010. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 37 Risk management

The Banking Group regards the management of risk to be a fundamental management activity, performed at all levels of its business. Supporting this approach is a risk management framework that includes core risk principles as well as policies and processes for measuring and monitoring risk ('**Risk Management Framework**').

Risk management framework and governance

The Board is responsible for determining the Bank's appetite for risk and reviewing the Risk Management Framework, including reviewing the Bank's financial statements and the Bank's internal and external audit processes.

The Bank is ultimately a subsidiary of the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank and its subsidiaries. Accordingly, the Banking Group's Risk Management Framework is closely aligned with the Ultimate Parent Bank's Risk Framework ('**Group Risk Framework**').

The Board applies the Group Risk Framework and may supplement or enhance the Group Risk Framework if it considers it appropriate to do so. The Board is supported by the New Zealand Board Audit Committee ('**NZBAC**') and the New Zealand Board Risk Management Committee ('**NZBRC**'), which are subcommittees of the Board responsible for monitoring risk management performance and controls across the Banking Group.

The NZBAC comprises five Directors of the Bank (two independent). The NZBAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, the activities of the Banking Group's auditors and monitors the relationship between management and the external auditors.

The NZBRC comprises all of the non-executive Directors of the Board. The NZBRC has power delegated by the Board to set risk appetites, approve frameworks, policies and processes for the management of risk that enhance those of the Ultimate Parent Bank, if required, and to accept risks beyond the approval discretion provided to management.

The Bank's Risk Management Framework consists of the policies, procedures, systems, processes, data, roles and responsibilities and controls that manage the application and governance of risk and support the risk appetite determinations of the Board. Governance is an essential element in achieving effective oversight and management of the Bank's risk. Effectively managing the risks inherent in the business is a key strategy of the Bank as well as providing support for the Bank's reputation, performance and future success.

The Risk Management Framework is approved by the Board and implemented through the Bank's Chief Executive ('**CEO**') and executive team, who oversee all risk in the New Zealand operations. Implementation is achieved through developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

Risk appetite and risk types

The Ultimate Parent Bank Group's core risk appetite is influenced by a range of factors, including whether a risk is considered consistent with its strategy (core risk) and whether an appropriate return can be achieved from taking that risk. The Bank maintains a risk reward oriented approach to creating shareholder value utilising a measurement framework covering all material risk classes. The Bank distinguishes between different risk types, and takes an integrated approach to managing them. These key risks are:

- Liquidity risk: the risk that the Bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.
- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations.
- Market risk: the risk to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
- Operational risk: the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk – the risk of legal or regulatory sanction, financial or reputational loss arising from the Banking Group's failure to apply the regulatory standards expected of the Banking Group as a financial services group.

Note 37 Risk management (continued)

- Other risks:
 - Equity risk – the potential for financial loss arising from movements in the value of the Bank's direct and indirect equity investments.
 - Model risk – the risk of financial, reputational or operational losses arising because of an error of fact or assumption within a model.
 - Reputational risk – the risk to earnings or capital arising from negative public opinion, resulting from the loss of reputation or public trust and standing.
 - Business risk – the risk associated with the vulnerability of a line of business to changes in the business environment.
 - Contagion risk – the risk that problems arising in other Ultimate Parent Bank Group members compromise the financial and operational position of the ADIs in the Ultimate Parent Bank Group.

The following principles are applied to these risks:

- aligning actions with values, strategies and objectives;
- following ethical selling practices and delivering products and services that meet the needs of customers;
- accepting that with responsibility comes accountability;
- establishing clear decision-making criteria;
- ensuring that increased risk is rewarded with increased return; and
- identifying and managing risk in all areas of responsibility.

Management assurance programme

The Banking Group has a quarterly management assurance programme designed to identify the key operational and compliance risks, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively.

This programme allows senior management to affirm their satisfaction with the quality of the processes under their responsibility and with the effectiveness of the controls that support that assurance. The results of this process are reported to the Bank's Executive Risk and Audit Committee ('ERAC'). The CEO provides management assurance to the Ultimate Parent Bank Board Risk Management Committee ('BRMC'), the Ultimate Parent Bank Board Audit Committee ('BAC') and the CEO of the Ultimate Parent Bank.

This system of management assurance assists the Ultimate Parent Bank's Board in satisfying itself that the Banking Group's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

Independent group assurance unit

The Banking Group has an independent internal audit unit ('Group Audit NZ') which reports to the Board Audit Committee, as well as to the Ultimate Parent Bank.

Group Audit NZ, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the Banking Group's activities, records, property and employees. The scope of responsibility of Group Audit NZ covers systems of management control across all business activities and support functions at all levels of management within the Banking Group. The level of operational risk determines the scope and frequency of individual audits. The Head of Group Audit NZ reports for functional purposes to the Bank's Board Audit Committee and to the Ultimate Parent Bank's General Manager Group Assurance and for administrative purposes to the Chief Financial Officer NZ, a member of the Banking Group's Executive Team.

Reviews in respect of risk management systems

Group Audit NZ participates quarterly in the management assurance programme in order to assess the adequacy of the governance framework supporting operational risk management.

The Ultimate Parent Bank Group Assurance's Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit and model risk. Group Audit NZ, with support from the Ultimate Parent Bank's Group Assurance unit, also periodically reviews the Bank's Operational, Market, Funding and Liquidity Risk Frameworks.

The above reviews discussed in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank, though they are independent and have no direct authority over the activities of management.

With a view to continuously improving risk management, the Bank also commissioned two external risk reviews that concluded during the six months ended 31 March 2010. The reviews were focused on risk governance and risk management practices. The findings of both reviews were considered by the Bank's Board and the ERAC. The Bank's risk framework has been improved and its risk management capability enhanced as a result of these reviews.

37.1 Compliance and operational risk

Compliance risk

The Bank is subject to regulation and regulatory oversight. Any significant regulatory developments could have an adverse effect on how business is conducted and on the results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Bank's control.

The Bank has a dedicated Operational Risk and Compliance function. Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

The Bank's ERAC, chaired by the Bank's Chief Risk Officer ('CRO'), meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. ERAC monitors the business unit operational risk profiles and the action plans, and is required to escalate material matters to NZBRC and the Ultimate Parent Bank Group Operational Risk and Compliance Committee ('Group OPCO'), where material.

Note 37 Risk management (continued)

Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the Banking Group's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Bank uses the Ultimate Parent Bank Group Operational Risk Management Framework as a tool to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management and reporting and monitoring.

The Bank has implemented the AMA methodology for calculating operational risk capital. An outline of this methodology, as set out below, takes into consideration both internal and external factors. Economic capital is allocated across the business lines and insurance, as a mitigant, is not used in the Bank's calculation of operational risk capital.

Calculating operational risk capital

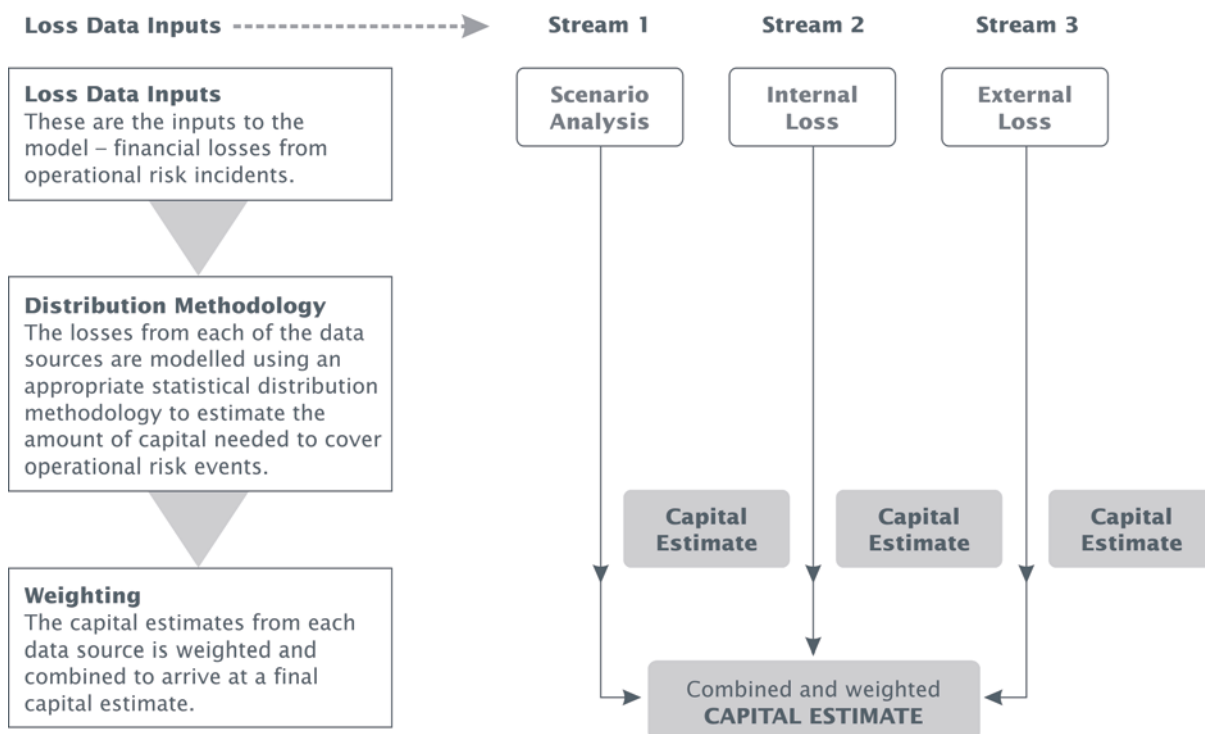
The calculation of operational risk capital is designed to estimate the amount of capital required to withstand losses from extreme unexpected operational risk events in future years. The Banking Group adopts a hybrid approach, relying on a variety of data sources that combines actual loss experience with estimates of potential future losses based on expert business judgement.

The Operational Risk Capital Model ('ORCM') has been developed to provide a reliable, reasonable and conservative estimate of the capital to be held by the Banking Group's regulated entities. It includes capital for both expected and unexpected losses arising from operational risk events.

The Banking Group undertakes three streams of analysis. Each stream utilises different data sets to generate an estimate of potential financial loss. The three capital estimates are then weighted and combined to produce an estimate of capital. Three streams are used to provide a more comprehensive assessment of possible operational risks by:

- covering smaller/frequent losses and larger/infrequent losses via scenario analysis;
- providing for losses previously experienced by the Banking Group; and
- utilising loss history from peers with similar business models.

Together these three streams give an indication of the future losses that are possible. The diagram below provides an overview of this process for calculating operational risk capital:



The calculation of operational risk capital does not currently make any adjustment or deduction for risks that may be covered by insurance or any expected losses that are the subject of financial provisions.

Regulatory capital is calculated quarterly. The ORCM is reviewed annually to re-assess the appropriateness of the model framework, the model methodology, the assumptions and the parameters used in the model in light of industry developments, advancements in modelling techniques and changes in the broader Operational Risk Management Framework.

Note 37 Risk management (continued)

The following table sets out the Banking Group's implied risk-weighted exposures under the AMA methodology and the operational risk capital requirement:

| | Six Months Ended 31 March 2010 | | Six Months Ended 31 March 2009 | |
|--------------------------------------|--|--|--|--|
| | Implied Risk- weighted Exposure Unaudited \$m | Total Operational Risk Capital Requirement Unaudited \$m | Implied Risk- weighted Exposure Unaudited \$m | Total Operational Risk Capital Requirement Unaudited \$m |
| Methodology implemented | | | | |
| Advanced Measurement Approach | | | | |
| Operational risk | 3,128 | 250 | 2,440 | 195 |

37.2 Funding and liquidity risk

Liquidity risk is the potential inability to meet our payment obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the Bank's balance sheet due to mismatches in the maturity of assets and liabilities. This risk is managed through the NZBRC approved liquidity risk management framework.

Responsibility for liquidity management is delegated to the Bank's Chief Financial Officer ('CFO') under the oversight of the CEO. The Bank's Treasury unit reports to the CFO and manages the liquidity position on a day to day basis. Liquidity risk positions are modelled and reported daily. Independent oversight is provided by the NZ Branch's Trading Risk Management unit in conjunction with and reported to the Bank's CRO. Since February 2010, monthly oversight of the liquidity and funding position is provided by the Bank's Asset and Liability Committee ('ALCO'). Quarterly reporting is presented to the NZBRC who also approve the funding strategy, liquidity limits structure and liquidity risk management framework. In addition, reporting is also provided to the Ultimate Parent Bank's Banking Book Risk Committee ('BBRC') and Asset and Liability Committee ('Group ALCO').

Two new conditions of registration have been imposed on the Bank following the implementation of the Reserve Bank's new prudential 'Liquidity Policy' (BS13). The new conditions of registration take effect from 1 April 2010 and are set out on page 9.

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework review

The liquidity risk management framework (the 'framework') is owned by the Bank's CRO and approved by the NZBRC. The framework covers all aspects of liquidity risk including:

- roles and responsibilities;
- measurement and modelling approaches;
- contingency planning;
- principal framework components, policies and reports along with the frequency of review and authority for approval;
- liquidity risk limits;
- scenarios covered;
- limit determination; and
- minimum holdings of liquid assets.

The framework is reviewed at least every two years and submitted to the NZBRC for endorsement.

Daily liquidity modelling and reporting

The Bank's liquidity risk position is modelled and reported on a daily basis covering:

- the level of liquid assets held;
- a going concern scenario; and
- a name crisis scenario.

With effect from 1 April 2010, the following quantitative measures required under the Reserve Bank's 'Liquidity Policy' (BS13) have been reported daily:

- the level of BS13 liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

Reports are circulated daily to the Bank's Treasury, Risk and Finance personnel, including the Bank's CRO and CFO. Monthly reporting of the liquidity risk profile is provided to the ALCO.

Note 37 Risk management (continued)

Annual funding plan

Each financial year the Bank's Treasury unit undertakes a comprehensive review resulting in the preparation of the Bank's annual funding plan. This review outlines the current funding strategy, proposes a funding strategy for the coming financial year and covers areas such as:

- trends in global debt markets;
- funding alternatives;
- peer analysis;
- estimation of wholesale funding task;
- estimated market capacity;
- funding risk analysis; and
- allocation of funding costs.

The Bank's annual funding plan is reviewed by ALCO prior to approval by the NZBRC.

Contingency planning

Treasury maintains a Crisis Management Action Plan detailing the broad actions that should be taken in the event of a funding crisis. This action plan:

- defines a committee of senior executives to manage a crisis;
- allocates responsibility to individuals for key tasks;
- includes a media relations strategy;
- provides a contingent funding plan; and
- contains detailed contact lists outlining key regulatory, government, ratings agencies, equity and debt investor contact points.

Sources of liquidity

The principal sources of liquidity for the Bank are:

- customer deposits;
- wholesale debt issuance;
- proceeds from sales of marketable securities;
- repurchase agreements;
- principal repayments on loans;
- interest income; and
- fee income.

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 (including cash, government securities, registered certificates of deposit issued by other banks and residential mortgage-backed securities) 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 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Cash | 70 | 188 | 32 |
| NZ Government securities | 2,434 | 2,321 | 2,479 |
| NZ corporate securities | 2,177 | 2,109 | 2,052 |
| Residential mortgage-backed securities | 6,092 | 4,028 | 4,278 |
| Due from/(to) related entities | 43 | 262 | (188) |
| Total liquid assets | 10,816 | 8,908 | 8,653 |

Liquidity analysis

The following liquidity analysis for financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. The balances in the tables below may not agree to the balance sheet as the tables incorporate all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

Note 37 Risk management (continued)

| | The Banking Group | | | | | | Total \$m |
|---|-------------------|--------------------------------|---------------------------------------|--------------------------------------|-------------------------------------|------------------------|---------------|
| | Overnight \$m | Less Than 1 Month \$m | Over 1 Month to 3 Months \$m | Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 239 | - | - | - | - | - | 239 |
| Due from other financial institutions | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 18 | - | - | - | - | - | 18 |
| Trading securities and other financial assets designated at fair value | - | 799 | 2,845 | 989 | - | - | 4,633 |
| Available-for-sale securities | - | - | - | 56 | - | - | 56 |
| Loans | 2,288 | 1,886 | 5,079 | 4,452 | 19,285 | 52,315 | 85,305 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 842 | - | - | - | - | - | 842 |
| Other assets | - | 153 | - | - | - | - | 153 |
| Total undiscounted financial assets | 3,390 | 2,838 | 7,924 | 5,497 | 19,285 | 52,315 | 91,249 |
| Liabilities | | | | | | | |
| Deposits at fair value | 13 | 864 | 1,210 | 351 | - | - | 2,438 |
| Deposits at amortised cost | 14,791 | 1,600 | 6,362 | 6,622 | 1,317 | - | 30,692 |
| Debt issues | - | 1,915 | 2,008 | 4,781 | 7,971 | 1,657 | 18,332 |
| Other liabilities | - | 456 | - | - | - | - | 456 |
| Perpetual subordinated notes | - | - | 9 | 32 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 377 | - | - | - | - | - | 377 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 125 | - | - | - | - | - | 125 |
| Held for hedging purposes (net settled) | - | 40 | 116 | 198 | 110 | - | 464 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | 21 | 44 | 232 | 6,185 | 1,710 | 8,192 |
| Cash inflow | - | - | (27) | (152) | (5,106) | (1,526) | (6,811) |
| Total undiscounted financial liabilities | 15,306 | 4,896 | 9,722 | 12,064 | 10,735 | 2,811 | 55,534 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 143 | - | - | - | - | - | 143 |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,909 | - | - | - | - | - | 5,909 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,473 | - | - | - | - | - | 4,473 |
| Total undiscounted contingent liabilities and commitments | 10,525 | - | - | - | - | - | 10,525 |

Note 37 Risk management (continued)

| | The Banking Group | | | | | | Total \$m |
|--|--------------------------|--------------------------------|--|--------------------------------------|-------------------------------------|------------------------|---------------|
| | Overnight \$m | Less Than 1 Month \$m | 31 March 2009 – Unaudited Over 1 Month to 3 Months \$m | Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 320 | - | - | - | - | - | 320 |
| Due from other financial institutions | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 26 | - | - | - | - | - | 26 |
| Trading securities and other financial assets designated at fair value | 500 | 1,409 | 1,748 | 1,017 | - | - | 4,674 |
| Available-for-sale securities | - | - | - | - | 38 | - | 38 |
| Loans | 2,038 | 2,131 | 4,389 | 4,900 | 19,716 | 56,058 | 89,232 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 453 | - | - | - | - | - | 453 |
| Other assets | - | 157 | - | - | - | - | 157 |
| Total undiscounted financial assets | 3,340 | 3,697 | 6,137 | 5,917 | 19,754 | 56,058 | 94,903 |
| Liabilities | | | | | | | |
| Deposits at fair value | - | 719 | 2,093 | 1,286 | 4 | - | 4,102 |
| Deposits at amortised cost | 15,019 | 2,759 | 5,142 | 4,861 | 1,412 | 1 | 29,194 |
| Trading liabilities and other financial liabilities designated at fair value | - | - | 478 | 1,885 | - | - | 2,363 |
| Debt issues | - | 2,532 | 4,398 | 3,121 | 1,823 | 49 | 11,923 |
| Other liabilities | - | 446 | - | - | - | - | 446 |
| Perpetual subordinated notes | - | - | 10 | 31 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 1,324 | - | - | 66 | 48 | - | 1,438 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 306 | - | - | - | - | - | 306 |
| Held for hedging purposes (net settled) | - | 21 | 129 | 380 | 332 | (2) | 860 |
| Total undiscounted financial liabilities | 16,649 | 6,477 | 12,250 | 11,630 | 3,877 | 1,018 | 51,901 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 147 | - | - | - | - | - | 147 |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,395 | - | - | - | - | - | 6,395 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,031 | - | - | - | - | - | 4,031 |
| Total undiscounted contingent liabilities and commitments | 10,573 | - | - | - | - | - | 10,573 |

Certain comparative numbers for the Banking Group have been restated as a result of continuing analysis of the underlying liquidity data.

Note 37 Risk management (continued)

| | The Banking Group | | | | | | Total \$m |
|--|--------------------------|--------------------------------|--|--------------------------------------|-------------------------------------|------------------------|---------------|
| | Overnight \$m | Less Than 1 Month \$m | 30 September 2009 – Audited Over 1 Month to 3 Months \$m | Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 213 | - | - | - | - | - | 213 |
| Due from other financial institutions | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 22 | - | - | - | - | - | 22 |
| Trading securities and other financial assets designated at fair value | - | 1,227 | 1,773 | 1,559 | - | - | 4,559 |
| Available-for-sale securities | - | - | - | - | 37 | - | 37 |
| Loans | 1,955 | 1,985 | 4,288 | 5,044 | 19,039 | 52,581 | 84,892 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 576 | - | - | - | - | - | 576 |
| Other assets | - | 142 | - | - | - | - | 142 |
| Total undiscounted financial assets | 2,769 | 3,354 | 6,061 | 6,603 | 19,076 | 52,581 | 90,444 |
| Liabilities | | | | | | | |
| Deposits at fair value | 70 | 1,286 | 1,805 | 319 | 4 | - | 3,484 |
| Deposits at amortised cost | 14,300 | 1,458 | 5,417 | 6,784 | 1,634 | 1 | 29,594 |
| Trading liabilities and other financial liabilities designated at fair value | - | 254 | 1,639 | - | - | - | 1,893 |
| Debt issues | - | 1,819 | 2,976 | 2,322 | 6,340 | 52 | 13,509 |
| Other liabilities | - | 494 | - | - | - | - | 494 |
| Perpetual subordinated notes | - | - | 9 | 31 | 277 | 970 | 1,287 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 723 | - | - | - | 48 | - | 771 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 513 | - | - | - | - | - | 513 |
| Held for hedging purposes (net settled) | - | 34 | 137 | 306 | 135 | - | 612 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | 14 | 24 | 127 | 4,709 | - | 4,874 |
| Cash inflow | - | - | (26) | (74) | (3,765) | - | (3,865) |
| Total undiscounted financial liabilities | 15,606 | 5,359 | 11,981 | 9,815 | 9,382 | 1,023 | 53,166 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 208 | - | - | - | - | - | 208 |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,502 | - | - | - | - | - | 6,502 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 3,978 | - | - | - | - | - | 3,978 |
| Total undiscounted contingent liabilities and commitments | 10,688 | - | - | - | - | - | 10,688 |

Certain comparative numbers for the Banking Group have been restated as a result of continuing analysis of the underlying liquidity data.

Note 37 Risk management (continued)

| | The Bank | | | | | | Total \$m |
|--|------------------|--------------------------------|---|--|-------------------------------------|------------------------|----------------|
| | Overnight \$m | Less Than 1 Month \$m | 31 March Over 1 Month to 3 Months \$m | 2010 – Unaudited Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 239 | - | - | - | - | - | 239 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 18 | - | - | - | - | - | 18 |
| Trading securities and other financial assets designated at fair value | - | 799 | 2,845 | 989 | - | - | 4,633 |
| Available-for-sale securities | - | - | - | 56 | - | - | 56 |
| Loans | 2,288 | 1,886 | 5,007 | 4,452 | 19,285 | 52,315 | 85,233 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 851 | - | 67 | 258 | 2,034 | 9,492 | 12,702 |
| Other assets | - | 151 | - | - | - | - | 151 |
| Total undiscounted financial assets | 3,396 | 2,836 | 7,919 | 5,755 | 21,319 | 61,807 | 103,032 |
| Liabilities | | | | | | | |
| Deposits at fair value | 13 | 864 | 1,210 | 351 | - | - | 2,438 |
| Deposits at amortised cost | 14,791 | 1,549 | 6,259 | 6,532 | 1,309 | - | 30,440 |
| Debt issues | - | 21 | 28 | 182 | 2,519 | 131 | 2,881 |
| Other liabilities | - | 411 | - | - | - | - | 411 |
| Perpetual subordinated notes | - | - | 9 | 32 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances ¹ | 749 | 1,896 | 2,047 | 4,857 | 7,486 | 11,018 | 28,053 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 125 | - | - | - | - | - | 125 |
| Held for hedging purposes (net settled) | - | 40 | 116 | 198 | 110 | - | 464 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | 21 | 44 | 232 | 6,185 | 1,710 | 8,192 |
| Cash inflow | - | - | (27) | (152) | (5,106) | (1,526) | (6,811) |
| Total undiscounted financial liabilities | 15,678 | 4,802 | 9,686 | 12,232 | 12,761 | 12,303 | 67,462 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 143 | - | - | - | - | - | 143 |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,909 | - | - | - | - | - | 5,909 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,473 | - | - | - | - | - | 4,473 |
| Total undiscounted contingent liabilities and commitments | 10,525 | - | - | - | - | - | 10,525 |

¹ The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by Westpac Securities NZ Limited, the proceeds of which are immediately on lent to the Bank. Hence, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Note 37 Risk management (continued)

| | The Bank | | | | | | Total \$m |
|--|------------------|--------------------------------|--|--------------------------------------|-------------------------------------|------------------------|----------------|
| | Overnight \$m | Less Than 1 Month \$m | 31 March 2009 – Unaudited Over 1 Month to 3 Months \$m | Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 320 | - | - | - | - | - | 320 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 26 | - | - | - | - | - | 26 |
| Trading securities and other financial assets designated at fair value | 500 | 1,409 | 1,748 | 1,017 | - | - | 4,674 |
| Available-for-sale securities | - | - | - | - | 38 | - | 38 |
| Loans | 2,038 | 2,131 | 4,317 | 4,900 | 19,716 | 56,058 | 89,160 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 885 | - | 68 | 225 | 1,920 | 9,380 | 12,478 |
| Other assets | - | 154 | - | - | - | - | 154 |
| Total undiscounted financial assets | 3,769 | 3,694 | 6,133 | 6,142 | 21,674 | 65,438 | 106,850 |
| Liabilities | | | | | | | |
| Deposits at fair value | - | 719 | 2,093 | 1,286 | 4 | - | 4,102 |
| Deposits at amortised cost | 15,019 | 2,759 | 5,142 | 4,861 | 1,412 | 1 | 29,194 |
| Trading liabilities and other financial liabilities designated at fair value | - | - | 478 | 1,885 | - | - | 2,363 |
| Debt issues | - | 20 | 129 | 359 | 1,512 | 54 | 2,074 |
| Other liabilities | - | 410 | - | - | - | - | 410 |
| Perpetual subordinated notes | - | - | 10 | 31 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances ¹ | 1,840 | 2,511 | 4,337 | 3,048 | 2,231 | 9,380 | 23,347 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 306 | - | - | - | - | - | 306 |
| Held for hedging purposes (net settled) | - | 21 | 129 | 380 | 332 | (2) | 860 |
| Total undiscounted financial liabilities | 17,165 | 6,440 | 12,318 | 11,850 | 5,749 | 10,403 | 63,925 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 147 | - | - | - | - | - | 147 |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,395 | - | - | - | - | - | 6,395 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,031 | - | - | - | - | - | 4,031 |
| Total undiscounted contingent liabilities and commitments | 10,573 | - | - | - | - | - | 10,573 |

¹ The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by Westpac Securities NZ Limited, the proceeds of which are immediately on lent to the Bank. Hence, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Certain comparative numbers for the Bank have been restated as a result of continuing analysis of the underlying liquidity data.

Notes to the financial statements

Note 37 Risk management (continued)

| | The Bank | | | | | | Total \$m |
|--|------------------|--------------------------------|--|--------------------------------------|-------------------------------------|------------------------|----------------|
| | Overnight \$m | Less Than 1 Month \$m | 30 September 2009 – Audited Over 1 Month to 3 Months \$m | Over 3 Months to 1 Year \$m | Over 1 Year to 5 Years \$m | Over 5 Years \$m | |
| Assets | | | | | | | |
| Cash and balances with central banks | 212 | - | - | - | - | - | 212 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 22 | - | - | - | - | - | 22 |
| Trading securities and other financial assets designated at fair value | - | 1,227 | 1,773 | 1,559 | - | - | 4,559 |
| Available-for-sale securities | - | - | - | - | 37 | - | 37 |
| Loans | 1,955 | 1,985 | 4,220 | 5,044 | 19,032 | 52,492 | 84,728 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 629 | - | 68 | 259 | 2,100 | 9,294 | 12,350 |
| Other assets | - | 139 | - | - | - | - | 139 |
| Total undiscounted financial assets | 2,818 | 3,351 | 6,061 | 6,862 | 21,169 | 61,786 | 102,047 |
| Liabilities | | | | | | | |
| Deposits at fair value | 70 | 1,286 | 1,805 | 319 | 4 | - | 3,484 |
| Deposits at amortised cost | 14,300 | 1,442 | 5,417 | 6,784 | 1,634 | 1 | 29,578 |
| Trading liabilities and other financial liabilities designated at fair value | - | 254 | 1,639 | - | - | - | 1,893 |
| Debt issues | - | 21 | 298 | 138 | 2,300 | 52 | 2,809 |
| Other liabilities | - | 441 | - | - | - | - | 441 |
| Perpetual subordinated notes | - | - | 9 | 31 | 277 | 970 | 1,287 |
| Due to related entities: | | | | | | | |
| Non-derivative balances ¹ | 801 | 1,798 | 2,746 | 2,444 | 6,189 | 9,294 | 23,272 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 513 | - | - | - | - | - | 513 |
| Held for hedging purposes (net settled) | - | 34 | 137 | 306 | 135 | - | 612 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | 14 | 24 | 127 | 4,709 | - | 4,874 |
| Cash inflow | - | - | (26) | (74) | (3,765) | - | (3,865) |
| Total undiscounted financial liabilities | 15,684 | 5,290 | 12,049 | 10,075 | 11,483 | 10,317 | 64,898 |
| Total contingent liabilities and commitments | | | | | | | |
| Housing loan commitments with certain drawdown | 208 | - | - | - | - | - | 208 |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,502 | - | - | - | - | - | 6,502 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 3,978 | - | - | - | - | - | 3,978 |
| Total undiscounted contingent liabilities and commitments | 10,688 | - | - | - | - | - | 10,688 |

¹ The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by Westpac Securities NZ Limited, the proceeds of which are immediately on lent to the Bank. Hence, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Certain comparative numbers for the Bank have been restated as a result of continuing analysis of the underlying liquidity data.

Note 37 Risk management (continued)

37.3 Credit risk

Credit risk is the risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the Banking Group. It arises from the Banking Group's lending activities and from interbank, treasury and international trade activities.

Credit risk management

The Banking Group adopts two approaches to managing credit risk depending upon the nature of the customer and product:

■ Transaction-managed approach

For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the Banking Group's estimate of their probability of default ('**PD**'). Each facility is assigned a Loss Given Default ('**LGD**') taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of exposures in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.

■ Program-managed approach

High-volume customer credit portfolios with homogenous credit risk characteristics are managed on a statistical basis according to predetermined objective criteria (the '**program-managed**' approach). Quantitative scorecards are used to assign application and behavioural scores to enable risk-based decision-making within these portfolios. The scorecard outcomes and decisions are regularly monitored and validated against subsequent customer performance and recalibrated (or rebuilt) when required. For capital estimation (and other purposes), risk-based customer segments are created based on expected PDs, and LGDs are assigned for each segment based on historic experience and management judgement.

The Banking Group is responsible for implementing and operating within established risk management frameworks and policies and has adapted the Ultimate Parent Bank Group's credit risk policy to the Banking Group's customer and product set. Accordingly, the Banking Group has its own credit manuals and delegated approval authorities which are approved by the Ultimate Parent Bank Group.

The Banking Group monitors its portfolio to guard against the development of risk concentrations. This process ensures that the Banking Group's credit risk remains well diversified throughout the New Zealand economy. The Banking Group has established separate reporting and prudential limits for borrowings that can be accessed by a single customer group. These limits apply to both borrowing equivalents and settlement risk. Separate limits apply to corporate, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the NZBRC along with a strategy addressing the ongoing management of the excess.

All business units produce regular delinquency reports that detail excesses and out of order positions. These reports trigger appropriate remedial action consistent with risk management procedures aligned to credit approval authority. Delinquency reporting is used to monitor portfolio performance, origination policies and credit decision-making.

Credit policies with group-wide implications are owned by the Group Risk division of the Ultimate Parent Bank ('**Ultimate Parent Bank Group Risk**') and approved by the Ultimate Parent Bank Group Credit Risk Committee. Compliance with these policies is administered locally.

Ultimate Parent Bank Group Risk takes an enterprise-wide view of risk and its impact on performance, and develops Ultimate Parent Bank group-wide risk strategy, framework and policies for the management of all risk classes. It is responsible for consistency, standardisation and control and defines the Ultimate Parent Bank group-wide risk management culture. Within these boundaries, the Banking Group has its own credit approval limits as delegated by the Ultimate Parent Bank Group Chief Risk Officer. These establish a hierarchy of credit approval levels, aligned to customer risk grades and consistent with normal customer exposures in the business.

Credit risk mitigation

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.

The Banking Group also takes collateral where it is considered necessary to mitigate credit risk and evaluates each customer's credit risk on a case-by-case basis. 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 has not obtained any financial or non-financial assets by taking possession of collateral it holds as security or calling on other credit enhancements.

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

Internal credit risk rating system

The principal objective of the credit risk rating system is to produce a reliable quantitative assessment of the credit risk to which the Banking Group is exposed.

The Banking Group's internal credit risk rating system for transaction-managed customers assigns a CRG to each customer, corresponding to their expected PD and has 20 risk grades for non-defaulted customers and 10 risk grades for defaulted customers. Non-defaulted CRGs are mapped to Moody's and Standard & Poor's external senior ranking unsecured ratings. This mapping is reviewed annually and allows the Banking Group to use the rating agencies' long-run default history to calculate long-run average PDs.

Note 37 Risk management (continued)

The table below shows the current alignment between the Banking Group's CRGs and the corresponding external rating. Note that only high-level CRG groupings are shown.

| Banking Group's customer risk grade | Standard & Poor's rating | Moody's rating | Supervisory slotting grade |
|-------------------------------------|--------------------------|----------------|----------------------------|
| A | AAA to AA- | Aaa to Aa3 | Strong |
| B | A+ to A- | A1 to A3 | Strong |
| C | BBB+ to BBB- | Baa1 to Baa3 | Strong |
| D | BB+ to B+ | Ba1 to B1 | Good/satisfactory |
| Banking Group rating | | | |
| E | Watchlist | | Weak |
| F | Specific mention | | Weak |
| G | Substandard/default | | Weak/default |
| H | Default | | Default |

The retail (program-managed) portfolio is segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics of default. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('EAD').

The Banking Group's credit risk rating system is reviewed to ensure the rating criteria and procedures are applicable to the current portfolio and external conditions. The annual review of the credit risk rating framework is approved by the BRMC. To ensure the credit risk rating system is applied consistently across the Banking Group, the Ultimate Parent Bank Group's Portfolio Risk Review team independently review end-to-end technical and operational aspects of the overall process. Models materially impacting the risk rating process are reviewed annually in accordance with the Ultimate Parent Bank Group's model risk policy. Specific credit risk estimates (including PD, LGD and the Credit Conversion Factor ('CCF')) are overseen and approved by a subcommittee of the Ultimate Parent Bank Group Credit Risk Committee.

Use of internal credit risk estimates

In addition to using the credit risk estimates for regulatory capital purposes they are also used for the following purposes:

Economic capital

The Banking Group allocates economic capital to all exposures. Economic capital includes both credit and non-credit components. Economic credit capital is allocated using a framework that considers estimates of PD, LGD, EAD, Total Committed Exposure and loan tenor as well as measures of portfolio composition not reflected in regulatory capital formulae.¹

Pricing

The Banking Group prices loans so as to produce an acceptable return on the economic capital allocated to the loan, after expected credit losses (and other costs) are incurred. Estimates of economic capital and expected credit losses take into account estimates of PD, LGD and EAD.

Provisioning

Impairment provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction-managed portfolio provisions use the risk grading framework and suitable PD, LGD and EADs assigned to each customer/facility as the basis for the calculation. Program-managed portfolios use estimated loss rates based on recent past experience as the primary basis of the calculation. These estimates are then adjusted for the specific requirements of the NZ IFRS accounting standards.

Credit approval authorities

For transaction-managed facilities, the approval authorities are allocated based on the CRG with lower limits applicable for customers with a higher PD. Program-managed facilities are approved on the basis of application scorecard outcomes and product-based approval authorities.

Risk-adjusted performance measurement

Business unit performance is measured using an economic profit framework which incorporates charges for economic credit capital as well as capital for other risk types.

Regulatory capital

Overview of internal credit risk ratings process by portfolio

The credit risk rating system is a key input to evaluate the level of capital to be held against loans for regulatory purposes.

(a) Transaction-managed approach (including business lending, corporate, sovereign and bank)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgement decision-making process is employed to evaluate the CRG. The following represent the types of business lending, corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- foreign exchange settlement exposures; and
- transaction exposures.

All of the above exposure categories also apply to Specialised Lending, which is a sub-asset class of Corporate and in the Banking Group comprises Project and Property Finance. Regulatory risk-weights are also applied to Specialised Lending.

¹ The Banking Group uses economic capital as the basis for risk-adjusted decision-making across the Banking Group and allows differences between economic and regulatory capital where such differences drive better medium-term to long-term business decisions.

Note 37 Risk management (continued)

Definitions, methods and data for estimation and validation of PD, LGD and EAD

(i) Probability of Default

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. PD is represented in a customer's risk grade.

(ii) Loss Given Default

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn. The Banking Group assigns an LGD to each credit facility, assuming an event of default has occurred, and taking into account a conservative estimate of the net realisable value of assets to which the Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposures in the customers' capital and debt structure.

LGD estimates are benchmarked against observed historical LGDs from internal and external data and are calibrated to reflect losses expected in an economic downturn. The calculation of historical LGDs is based on an economic loss and includes allowances for workout costs and the discounting of future cash flows to the date of default.

LGD values range from 5% to 100%. The range of LGD values ensures that the risk of loss is differentiated across many credit facilities extended to customers.

(iii) Exposure at Default and Credit Conversion Factor

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default. The proportion of undrawn commitments ultimately is termed the CCF. EAD therefore consists of initial outstanding balances, plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCFs are all 100%.

(b) Retail (program-managed) asset class approach (including residential mortgages, small business and other retail)

Each customer is rated using details of their account performance or application details and segmented into pools of similar risk. These segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics of default. The retail (program-managed) portfolio is divided into a number of segments per product with each segment assigned a quantified measurement of its PD, LGD and EAD.

(i) Probability of Default

PDs are assigned at the retail segment level and reflect the likelihood of accounts within that segment to default. A long-run average is used to assign a PD to each account in a segment based on the segment's characteristics. The PD estimate for each segment is based on internal data.

(ii) Loss Given Default

LGD measures the proportion of the exposure that will be lost if default occurs. LGD is measured as a percentage of EAD. The approach to LGD varies depending on whether the retail product is secured or unsecured. A downturn period is used to reflect the effect on the collateral for secured products. For unsecured products, a long-run estimate is used for LGD.

(iii) Exposure at Default

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default.

Maximum exposure to credit risk

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Financial assets | | | | | | |
| Cash and balances with central bank | 239 | 320 | 213 | 239 | 320 | 212 |
| Due from other financial institutions | 3 | 3 | 3 | - | - | - |
| Derivative financial instruments | 18 | 26 | 22 | 18 | 26 | 22 |
| Trading securities and other financial assets designated at fair value | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |
| Available for sale securities | 56 | 38 | 37 | 56 | 38 | 37 |
| Loans | 49,369 | 47,793 | 48,174 | 49,215 | 47,621 | 48,015 |
| Due from related entities | 842 | 453 | 576 | 8,351 | 8,385 | 8,129 |
| Other assets | 153 | 157 | 142 | 151 | 154 | 139 |
| Total financial assets | 55,289 | 53,442 | 53,588 | 62,639 | 61,196 | 60,975 |
| Contingent liabilities and commitments | | | | | | |
| Direct credit substitutes | 43 | 54 | 45 | 43 | 54 | 45 |
| Housing loan commitments with certain drawdown | 143 | 147 | 208 | 143 | 147 | 208 |
| Transaction related contingent items | 253 | 277 | 279 | 253 | 277 | 279 |
| Short-term, self liquidating trade related contingent liabilities | 645 | 734 | 678 | 645 | 734 | 678 |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,909 | 6,395 | 6,502 | 5,909 | 6,395 | 6,502 |
| Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time | 4,473 | 4,031 | 3,978 | 4,473 | 4,031 | 3,978 |
| Total contingent liabilities and commitments | 11,466 | 11,638 | 11,690 | 11,466 | 11,638 | 11,690 |
| Total maximum credit risk exposure | 66,755 | 65,080 | 65,278 | 74,105 | 72,834 | 72,665 |

Note 37 Risk management (continued)

Summary of the Banking Group's total credit risk as calculated under the Basel II Framework

The Banking Group's total credit risk under the Basel II framework, as at 31 March 2010, was as follows:

| | Risk-weighted Exposure Unaudited \$m | Minimum Capital Requirement Unaudited \$m |
|---|--------------------------------------|---|
| Internal risk base | | |
| Residential mortgages | 11,143 | 890 |
| Other retail | 2,276 | 182 |
| Small business | 930 | 75 |
| Corporate | 2,485 | 198 |
| Business lending | 5,535 | 443 |
| Sovereign | 58 | 4 |
| Bank | 228 | 19 |
| Equity | 168 | 13 |
| Specialised lending: Project and property finance | 5,067 | 406 |
| Standardised | 731 | 58 |
| Total | 28,621 | 2,288 |

Mapping of Basel categories to the Banking Group portfolios

| Asset Class | Sub-asset Class | Banking Group Category | Segmentation Criteria |
|----------------------|---------------------|------------------------------|--|
| Corporate | Corporate | Corporate | All transaction-managed customers not elsewhere classified where annual turnover exceeds \$50 million. |
| | SME corporate | Business lending | All transaction-managed customers not elsewhere classified where annual turnover is \$50 million or less. |
| | Specialised lending | Specialised lending-property | Applied to transaction-managed customers where the primary source of debt service, security and repayment is derived from either the sale of a property development or income produced by one or more investment properties. |
| Sovereign | | Sovereign | Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code. |
| Bank | | Bank | Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code. |
| Residential mortgage | | Residential mortgages | All program-managed exposures secured by residential mortgages, including business loans under \$1 million fully secured by residential mortgages. |
| Other retail | | Small business | Program-managed business lending, excluding business loans under \$1 million secured by residential mortgages. |
| | | Other retail | All other program-managed lending to retail customers, including New Zealand credit cards. |

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 31 March 2010 (Unaudited)

| PD Band (%) | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|------------------------------|---------------|--------------|---------------|-----------------------|-----------------------------------|---------------------------------|
| Residential mortgages | | | | | | |
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | 3,415 | - | 22 | 7 | 253 | 20 |
| 0.25 to 1.0 | 10,948 | 1 | 22 | 19 | 2,029 | 162 |
| 1.0 to 2.5 | 16,651 | 1 | 22 | 34 | 5,600 | 448 |
| 2.5 to 10.0 | 1,607 | 4 | 22 | 68 | 1,089 | 87 |
| 10.0 to 99.99 | 314 | 23 | 22 | 129 | 404 | 32 |
| Default | 883 | 100 | 22 | 200 | 1,768 | 141 |
| Total | 33,818 | 4 | 22 | 33 | 11,143 | 890 |

Note 37 Risk management (continued)

| PD Band (%) | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|---|--------------|--------------------|---------------------|-----------------------------|--|--|
| Other retail (Credit cards, personal loans, personal overdrafts) | | | | | | |
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | - | - | - | - | - | - |
| 0.25 to 1.0 | 1,077 | - | 63 | 41 | 438 | 35 |
| 1.0 to 2.5 | 732 | 2 | 68 | 88 | 648 | 52 |
| 2.5 to 10.0 | 708 | 4 | 66 | 102 | 720 | 58 |
| 10.0 to 99.99 | 179 | 22 | 66 | 148 | 266 | 21 |
| Default | 57 | 100 | 65 | 357 | 204 | 16 |
| Total | 2,753 | 5 | 65 | 83 | 2,276 | 182 |
| Small business | | | | | | |
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | - | - | - | - | - | - |
| 0.25 to 1.0 | 590 | 1 | 18 | 14 | 83 | 7 |
| 1.0 to 2.5 | 1,479 | 2 | 18 | 24 | 354 | 28 |
| 2.5 to 10.0 | 522 | 5 | 20 | 33 | 173 | 14 |
| 10.0 to 99.99 | 42 | 27 | 21 | 53 | 22 | 2 |
| Default | 154 | 100 | 19 | 194 | 298 | 24 |
| Total | 2,787 | 8 | 18 | 33 | 930 | 75 |
| PD Grade | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
| Banking Group – Corporate | | | | | | |
| AAA | - | - | - | - | - | - |
| AA | 11 | - | 60 | 12 | 1 | - |
| A | 117 | - | 58 | 25 | 29 | 2 |
| BBB | 380 | - | 51 | 47 | 178 | 14 |
| BB | 1,050 | 2 | 50 | 112 | 1,177 | 94 |
| B | 18 | 3 | 20 | 57 | 10 | 1 |
| Other | 398 | 23 | 48 | 256 | 1,017 | 81 |
| Default | 74 | 100 | 32 | 98 | 73 | 6 |
| Total | 2,048 | 9 | 49 | 121 | 2,485 | 198 |
| Business lending | | | | | | |
| AAA | - | - | - | - | - | - |
| AA | 5 | - | 60 | 17 | 1 | - |
| A | 133 | - | 57 | 31 | 41 | 3 |
| BBB | 809 | - | 35 | 32 | 260 | 21 |
| BB | 5,591 | 2 | 28 | 57 | 3,173 | 254 |
| B | 180 | 3 | 32 | 74 | 134 | 11 |
| Other | 1,013 | 17 | 34 | 140 | 1,422 | 114 |
| Default | 163 | 100 | 51 | 309 | 504 | 40 |
| Total | 7,894 | 6 | 31 | 70 | 5,535 | 443 |
| PD Grade | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
| Sovereign | | | | | | |
| AAA | 2,459 | - | 5 | - | 11 | 1 |
| AA | 1 | - | 60 | 11 | - | - |
| A | 475 | - | 16 | 6 | 28 | 2 |
| BBB | 104 | - | 19 | 14 | 14 | 1 |
| BB | 5 | 2 | 34 | 107 | 5 | - |
| B | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Default | - | - | - | - | - | - |
| Total | 3,044 | - | 7 | 2 | 58 | 4 |

Notes to the financial statements

Note 37 Risk management (continued)

| PD Grade | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|--------------|--------------|--------------------|---------------------|-----------------------------|--|--|
| Bank | | | | | | |
| AAA | - | - | - | - | - | - |
| AA | 2,125 | - | 58 | 10 | 221 | 18 |
| A | 60 | - | 60 | 12 | 7 | 1 |
| BBB | - | - | - | - | - | - |
| BB | - | - | - | - | - | - |
| B | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Default | - | - | - | - | - | - |
| Total | 2,185 | - | 58 | 10 | 228 | 19 |

| | EAD \$m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|--|------------|--------------------|---------------------|-----------------------------|--|--|
| Equity | | | | | | |
| Equity holdings (not deducted from capital) that are publicly traded | 56 | - | - | 300 | 168 | 13 |

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 above tables.

| | Undrawn Commitments and Other Off-balance Sheet Amounts | | Market Related Contracts | |
|--|---|--------------|-----------------------------|------------|
| | Value \$m | EAD \$m | Value \$m | EAD \$m |
| Residential mortgages | 5,276 | 521 | - | - |
| Other retail (Credit cards, personal loans, personal overdrafts) | 2,654 | 1,105 | - | - |
| Small business | 955 | 537 | - | - |
| Corporate | 545 | 545 | - | - |
| Business lending | 1,058 | 1,058 | - | - |
| Sovereign | 205 | 205 | - | - |
| Bank | - | - | - | - |
| Total | 10,693 | 3,971 | - | - |

The Banking Group's Specialised Lending: Project and property finance credit risk exposures as at 31 March 2010 (Unaudited)

| Supervisory slotting grade | EAD \$m | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|----------------------------|--------------|-----------------------------|--|--|
| Strong | 955 | 70 | 668 | 53 |
| Good | 1,689 | 90 | 1,520 | 122 |
| Satisfactory | 756 | 115 | 870 | 70 |
| Weak | 804 | 250 | 2,009 | 161 |
| Default | 151 | - | - | - |
| Total | 4,355 | 116 | 5,067 | 406 |

Additional information for Specialised lending: Project and property finance as at 31 March 2010 (Unaudited)

These amounts are included in the above table.

| | EAD \$m | Average Risk Weight % | Risk-weighted Assets (scaled) \$m | Required Regulatory Capital \$m |
|---|------------|-----------------------------|--|--|
| Undrawn commitments and other off-balance sheet amounts | 295 | 101 | 298 | 24 |

Note 37 Risk management (continued)

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2010 (Unaudited)

Calculation of on-balance sheet exposures

| | Total Exposure After Credit Risk Mitigation \$m | Average Risk Weight % | Risk-weighted Exposure \$m | Minimum Capital Requirement \$m |
|--|--|--------------------------|-------------------------------|------------------------------------|
| Property, plant and equipment and other assets | 257 | 100 | 257 | 21 |
| Related parties | 890 | 35 | 312 | 25 |
| Total on-balance sheet exposures | 1,147 | | 569 | 46 |

Calculation of off-balance sheet exposures

| | Total Principal Amount \$m | Credit Equivalent Amount \$m | Average Risk Weight % | Risk-weighted Exposure \$m | Minimum Capital Requirement \$m |
|--|-------------------------------|---------------------------------|--------------------------|-------------------------------|------------------------------------|
| Market related contracts subject to the standardised approach | | | | | |
| Foreign exchange contracts | 14,916 | 518 | 20 | 104 | 8 |
| Interest rate contracts | 26,247 | 81 | 21 | 17 | 1 |
| Total market related contracts subject to the standardised approach | 41,163 | 599 | | 121 | 9 |
| Standardised subtotal | | | | 690 | 55 |
| After adjustment for scalar | | | | 731 | 58 |

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2010 (Unaudited)

| LVR range | 0-60% | 61-70% | 71-80% | 81-90% | Over 90% |
|--------------------|--------|--------|--------|--------|----------|
| Value of exposures | 12,189 | 5,562 | 7,605 | 4,996 | 3,264 |

37.4 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates and equity prices. As the Bank's financial markets business is conducted by the Ultimate Parent Bank's NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). With the exception of the available-for-sale investment in Visa shares (refer Note 26), neither the Banking Group nor the Bank carries material foreign currency or equity price risk due to the risks being hedged with the Ultimate Parent Bank.

Non-traded market risk (interest rate risk in the banking book)

Approach

The banking book activities that give rise to market risk include lending activities, balance sheet funding and capital management. Interest rate risk and funding and liquidity risk are inherent in these activities. The Bank's Treasury unit is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

The Bank's Treasury unit manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the Bank's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('NII') over time. These activities are performed under the direction of the Ultimate Parent Bank's Market Risk Committee ('MARCO') with oversight by Market Risk Management. These activities are conducted within a risk framework and appetite set down by the BRMC.

NII sensitivity

NII sensitivity is managed in terms of the net interest income-at-risk ('NaR') modelled over a one-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. A simulation model is used to calculate the Bank's potential NaR. The NII simulation framework combines the underlying balance sheet data with assumptions about run off and new business, expected repricing behaviour and changes in wholesale market interest rates. Simulations using a range of interest rate scenarios are used to provide a series of potential future NII outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves. Additional stressed interest rate scenarios are also considered and modelled. A comparison between the NII outcomes from these modelled scenarios indicates the sensitivity to interest rate changes.

Limits

The BRMC has approved NaR and Value-at-Risk ('VaR') limits for banking book risk across the Ultimate Parent Bank Group. A NaR sub limit has been assigned to the NZ Banking Group (which refers to all controlled entities of the Ultimate Parent Bank operating within New Zealand geography) and in addition structural limits, expressed as interest rate delta, are also in place for the NZ Banking Group.

Risk reporting

Interest rate risk in the banking book risk measurement systems and personnel are centralised in Sydney, Australia. These include front office product systems which capture all treasury funding and derivative transactions, the transfer pricing system which captures all retail transactions in Australia and New Zealand, traded and non-traded VaR systems which calculate Group Treasury VaR and the NII system which calculates NII and NaR for the Australian and New Zealand balance sheets.

Note 37 Risk management (continued)

Daily monitoring of current exposure and limit utilisation is conducted independently by the NZ Branch's Trading Risk Management unit, which monitors market risk exposures against approved limits. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the senior management market risk forums of MARCO and BRMC respectively to ensure transparency of material market risks and issues.

Risk mitigation

Market risk arising in the banking book stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management. Hedging of the Bank's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow, fair value and net investment hedge approaches. Some derivatives held for economic hedging purposes do not meet the criteria for hedge accounting, and therefore are accounted for in the same way as derivatives held for trading.

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). The end-of-quarter aggregate interest rate 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 (VaR) during the quarter, comparing this to the current and previous quarter end VaRs and calculating the peak risk by using the ratio of the peak to the quarter 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).

For each category of market risk, the Banking Group's peak end-of-day capital charge as a percentage of the Banking Group's equity is the peak end-of-day capital charge for that category of market risk divided by the Banking Group's equity as at 31 March 2010.

The following table provides a summary of the Banking Group's capital charges by risk type as at balance date and the peak end-of-day capital charges by risk type for the three months ended 31 March:

| | The Banking Group 31 March 2010 – Unaudited | | | The Banking Group 31 March 2009 – Unaudited | | |
|------------------------|--|---------------------------------------|--|--|---------------------------------------|--|
| | Implied Risk-weighted Exposure \$m | Aggregate Capital Charge \$m | Aggregate Capital Charge as a Percentage of the Banking Group's Equity % | Implied Risk-weighted Exposure \$m | Aggregate Capital Charge \$m | Aggregate Capital Charge as a Percentage of the Banking Group's Equity % |
| End-of-period | | | | | | |
| Interest rate risk | 925 | 74 | 1.90 | 863 | 69 | 1.90 |
| Foreign currency risk | 56 | 4 | 0.11 | 38 | 3 | 0.08 |
| Equity risk | 56 | 4 | 0.11 | 38 | 3 | 0.08 |
| Peak end-of-day | | | | | | |
| Interest rate risk | 1,988 | 159 | 4.07 | 1,700 | 136 | 3.73 |
| Foreign currency risk | 56 | 4 | 0.11 | 38 | 3 | 0.08 |
| Equity risk | 56 | 4 | 0.11 | 38 | 3 | 0.08 |

VaR

The Banking Group applies a VaR methodology to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

VaR is an estimate of the potential loss in value, to a 99% confidence level assuming positions were held unchanged for one day. The Banking Group uses a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The Banking Group does not have any significant foreign currency and equity risk. The following table provides a summary of Interest Rate Risk VaR for the Banking Group's non-traded market risk activities.

| | Six Months Ended 31 March 2010 Unaudited \$m | Six Months Ended 31 March 2009 Unaudited \$m | Year Ended 30 September 2009 Audited \$m |
|--------------------|---|---|---|
| Interest rate risk | 1.54 | 4.41 | 0.65 |

Note 37 Risk management (continued)

Interest rate sensitivity

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with the Banking Group's policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2010. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour, to manage its interest rate risk.

| | The Banking Group | | | | | | | | | Total \$m |
|---|-----------------------------|-------------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|------------------------------|---------------------------|------------------------------------|---------------|
| | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | 31 March 2010 – Unaudited | |
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non- interest Bearing \$m | |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 70 | - | - | - | - | - | - | - | 169 | 239 |
| Due from other financial institutions | 3 | - | - | - | - | - | - | - | - | 3 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 18 | 18 |
| Trading securities and other financial assets designated at fair value | 795 | 2,830 | 984 | - | - | - | - | - | - | 4,609 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 56 | 56 |
| Loans | 21,419 | 5,187 | 10,904 | 7,678 | 3,261 | 882 | 682 | 28 | (672) | 49,369 |
| Due from related entities | 816 | - | - | - | - | - | - | - | 26 | 842 |
| Other assets | - | - | - | - | - | - | - | - | 153 | 153 |
| Total financial assets | 23,103 | 8,017 | 11,888 | 7,678 | 3,261 | 882 | 682 | 28 | (250) | 55,289 |
| Non-financial assets | | | | | | | | | | 965 |
| Total assets | | | | | | | | | | 56,254 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 875 | 1,204 | 347 | - | - | - | - | - | - | 2,426 |
| Deposits at amortised cost | 13,814 | 6,228 | 6,355 | 751 | 173 | 110 | 162 | - | 2,516 | 30,109 |
| Debt issues | 5,765 | 2,512 | 881 | 664 | 2,787 | 520 | 2,166 | 1,515 | - | 16,810 |
| Other liabilities | - | - | - | - | - | - | - | - | 456 | 456 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 311 | - | 48 | - | - | - | - | - | 1,109 | 1,468 |
| Total financial liabilities | 20,765 | 10,914 | 7,631 | 1,415 | 2,960 | 630 | 2,328 | 1,515 | 4,081 | 52,239 |
| Non-financial liabilities | | | | | | | | | | 107 |
| Total liabilities | | | | | | | | | | 52,346 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 4,097 | 9,091 | (6,588) | (4,213) | (2,399) | (105) | 55 | 62 | - | - |

Notes to the financial statements

Note 37 Risk management (continued)

| The Banking Group | | | | | | | | | | |
|---|-----------------------------|----------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------|------------------------------------|---------------|
| 31 March 2009 – Unaudited | | | | | | | | | | |
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non- interest Bearing \$m | Total \$m |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 188 | - | - | - | - | - | - | - | 132 | 320 |
| Due from other financial institutions | 3 | - | - | - | - | - | - | - | - | 3 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 26 | 26 |
| Trading securities and other financial assets designated at fair value | 1,907 | 1,739 | 1,006 | - | - | - | - | - | - | 4,652 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 38 | 38 |
| Loans | 20,615 | 5,389 | 8,069 | 8,055 | 3,551 | 1,866 | 669 | 138 | (559) | 47,793 |
| Due from related entities | 428 | - | - | - | - | - | - | - | 25 | 453 |
| Other assets | - | - | - | - | - | - | - | - | 157 | 157 |
| Total financial assets | 23,141 | 7,128 | 9,075 | 8,055 | 3,551 | 1,866 | 669 | 138 | (181) | 53,442 |
| Non-financial assets | | | | | | | | | | 926 |
| Total assets | | | | | | | | | | 54,368 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 717 | 2,079 | 1,269 | 4 | - | - | - | - | - | 4,069 |
| Deposits at amortised cost | 15,463 | 5,025 | 4,617 | 1,025 | 135 | 42 | 86 | 1 | 2,225 | 28,619 |
| Trading liabilities and other financial liabilities designated at fair value | 33 | 700 | 1,564 | - | - | - | - | - | - | 2,297 |
| Debt issues | 4,714 | 4,352 | 1,382 | - | 672 | - | 322 | 50 | - | 11,492 |
| Other liabilities | - | - | - | - | - | - | - | - | 446 | 446 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 1,223 | - | 61 | - | 48 | - | - | - | 1,252 | 2,584 |
| Total financial liabilities | 22,150 | 13,126 | 8,893 | 1,029 | 855 | 42 | 408 | 51 | 3,923 | 50,477 |
| Non-financial liabilities | | | | | | | | | | 243 |
| Total liabilities | | | | | | | | | | 50,720 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 3,260 | 7,045 | (2,333) | (5,052) | (1,798) | (1,249) | 125 | 2 | - | - |

| The Banking Group | | | | | | | | | | |
|---|-----------------------------|----------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------|------------------------------------|---------------|
| 30 September 2009 – Audited | | | | | | | | | | |
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non- interest Bearing \$m | Total \$m |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 32 | - | - | - | - | - | - | - | 181 | 213 |
| Due from other financial institutions | 3 | - | - | - | - | - | - | - | - | 3 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 22 | 22 |
| Trading securities and other financial assets designated at fair value | 1,225 | 1,909 | 1,287 | - | - | - | - | - | - | 4,421 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 37 | 37 |
| Loans | 19,731 | 4,346 | 10,523 | 7,455 | 4,292 | 1,199 | 1,097 | 51 | (520) | 48,174 |
| Due from related entities | 523 | - | - | - | - | - | - | - | 53 | 576 |
| Other assets | - | - | - | - | - | - | - | - | 142 | 142 |
| Total financial assets | 21,514 | 6,255 | 11,810 | 7,455 | 4,292 | 1,199 | 1,097 | 51 | (85) | 53,588 |
| Non-financial assets | | | | | | | | | | 921 |
| Total assets | | | | | | | | | | 54,509 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 1,354 | 1,796 | 314 | 4 | - | - | - | - | - | 3,468 |
| Deposits at amortised cost | 13,476 | 5,284 | 6,529 | 1,197 | 127 | 44 | 150 | 1 | 2,219 | 29,027 |
| Trading liabilities and other financial liabilities designated at fair value | 317 | 1,568 | - | - | - | - | - | - | - | 1,885 |
| Debt issues | 2,975 | 2,616 | 1,643 | 357 | 2,359 | 74 | 2,296 | 49 | - | 12,369 |
| Other liabilities | - | - | - | - | - | - | - | - | 494 | 494 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 607 | 8 | 61 | - | 48 | - | - | - | 1,702 | 2,426 |
| Total financial liabilities | 18,729 | 12,242 | 8,547 | 1,558 | 2,534 | 118 | 2,446 | 50 | 4,415 | 50,639 |
| Non-financial liabilities | | | | | | | | | | 106 |
| Total liabilities | | | | | | | | | | 50,745 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 2,646 | 8,836 | (4,246) | (3,544) | (2,924) | (1,075) | 205 | 102 | - | - |

Note 37 Risk management (continued)

| | The Bank | | | | | | | | | |
|--|-----------------------|-------------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|------------------|--------------------------|---------------|
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non-interest Bearing \$m | Total \$m |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 70 | - | - | - | - | - | - | - | 169 | 239 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 18 | 18 |
| Trading securities and other financial assets designated at fair value | 795 | 2,830 | 984 | - | - | - | - | - | - | 4,609 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 56 | 56 |
| Loans | 21,294 | 5,183 | 10,881 | 7,676 | 3,257 | 881 | 682 | 28 | (667) | 49,215 |
| Due from related entities | 813 | 7,500 | - | - | - | - | - | - | 38 | 8,351 |
| Other assets | - | - | - | - | - | - | - | - | 151 | 151 |
| Total financial assets | 22,972 | 15,513 | 11,865 | 7,676 | 3,257 | 881 | 682 | 28 | (235) | 62,639 |
| Non-financial assets | | | | | | | | | | 1,089 |
| Total assets | | | | | | | | | | 63,728 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 875 | 1,204 | 347 | - | - | - | - | - | - | 2,426 |
| Deposits at amortised cost | 13,768 | 6,130 | 6,268 | 743 | 173 | 110 | 162 | - | 2,516 | 29,870 |
| Debt issues | 248 | 76 | - | 635 | - | 497 | 686 | 109 | - | 2,251 |
| Other liabilities | - | - | - | - | - | - | - | - | 411 | 411 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 15,136 | 7,500 | 48 | - | - | - | - | - | 1,145 | 23,829 |
| Total financial liabilities | 30,027 | 15,880 | 6,663 | 1,378 | 173 | 607 | 848 | 109 | 4,072 | 59,757 |
| Non-financial liabilities | | | | | | | | | | 107 |
| Total liabilities | | | | | | | | | | 59,864 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 4,097 | 9,091 | (6,588) | (4,213) | (2,399) | (105) | 55 | 62 | - | - |

| | The Bank | | | | | | | | | |
|--|-----------------------|-------------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|------------------|--------------------------|---------------|
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non-interest Bearing \$m | Total \$m |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 188 | - | - | - | - | - | - | - | 132 | 320 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 26 | 26 |
| Trading securities and other financial assets designated at fair value | 1,907 | 1,739 | 1,006 | - | - | - | - | - | - | 4,652 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 38 | 38 |
| Loans | 20,473 | 5,385 | 8,047 | 8,052 | 3,550 | 1,865 | 668 | 137 | (556) | 47,621 |
| Due from related entities | 812 | 7,500 | - | - | - | - | - | - | 73 | 8,385 |
| Other assets | - | - | - | - | - | - | - | - | 154 | 154 |
| Total financial assets | 23,380 | 14,624 | 9,053 | 8,052 | 3,550 | 1,865 | 668 | 137 | (133) | 61,196 |
| Non-financial assets | | | | | | | | | | 1,066 |
| Total assets | | | | | | | | | | 62,262 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 717 | 2,079 | 1,269 | 4 | - | - | - | - | - | 4,069 |
| Deposits at amortised cost | 15,463 | 5,025 | 4,617 | 1,025 | 135 | 42 | 86 | 1 | 2,225 | 28,619 |
| Trading liabilities and other financial liabilities designated at fair value | 33 | 700 | 1,564 | - | - | - | - | - | - | 2,297 |
| Debt issues | 604 | 105 | - | - | 672 | - | 322 | 50 | - | 1,753 |
| Other liabilities | - | - | - | - | - | - | - | - | 410 | 410 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 11,522 | 7,500 | - | - | - | - | - | - | 1,271 | 20,293 |
| Total financial liabilities | 28,339 | 16,379 | 7,450 | 1,029 | 807 | 42 | 408 | 51 | 3,906 | 58,411 |
| Non-financial liabilities | | | | | | | | | | 239 |
| Total liabilities | | | | | | | | | | 58,650 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 3,260 | 7,045 | (2,333) | (5,052) | (1,798) | (1,249) | 125 | 2 | - | - |

Notes to the financial statements

Note 37 Risk management (continued)

| | The Bank | | | | | | | | | |
|---|-----------------------------|----------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------|------------------------------------|---------------|
| | 30 September 2009 – Audited | | | | | | | | | |
| | Less Than 1 Month \$m | 1 Month to 3 Months \$m | 3 Months to 1 Year \$m | 1 Year to 2 Years \$m | 2 Years to 3 Years \$m | 3 Years to 4 Years \$m | 4 Years to 5 Years \$m | Over 5 Years \$m | Non- interest Bearing \$m | Total \$m |
| Financial assets | | | | | | | | | | |
| Cash and balances with central banks | 32 | - | - | - | - | - | - | - | 180 | 212 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 22 | 22 |
| Trading securities and other financial assets designated at fair value | 1,225 | 1,909 | 1,287 | - | - | - | - | - | - | 4,421 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 37 | 37 |
| Loans | 19,605 | 4,342 | 10,497 | 7,453 | 4,291 | 1,197 | 1,096 | 51 | (517) | 48,015 |
| Due from related entities | 537 | 7,500 | - | - | - | - | - | - | 92 | 8,129 |
| Other assets | - | - | - | - | - | - | - | - | 139 | 139 |
| Total financial assets | 21,399 | 13,751 | 11,784 | 7,453 | 4,291 | 1,197 | 1,096 | 51 | (47) | 60,975 |
| Non-financial assets | | | | | | | | | | 1,067 |
| Total assets | | | | | | | | | | 62,042 |
| Financial liabilities | | | | | | | | | | |
| Deposits at fair value | 1,354 | 1,796 | 314 | 4 | - | - | - | - | - | 3,468 |
| Deposits at amortised cost | 13,460 | 5,284 | 6,529 | 1,197 | 127 | 44 | 150 | 1 | 2,219 | 29,011 |
| Trading liabilities and other financial liabilities designated at fair value | 317 | 1,568 | - | - | - | - | - | - | - | 1,885 |
| Debt issues | 577 | - | - | 339 | 290 | 70 | 880 | 47 | - | 2,203 |
| Other liabilities | - | - | - | - | - | - | - | - | 441 | 441 |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 |
| Due to related entities | 10,941 | 7,508 | - | - | - | - | - | - | 1,787 | 20,236 |
| Total financial liabilities | 26,649 | 17,126 | 6,843 | 1,540 | 417 | 114 | 1,030 | 48 | 4,447 | 58,214 |
| Non-financial liabilities | | | | | | | | | | 106 |
| Total liabilities | | | | | | | | | | 58,320 |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | |
| Receivable/(payable) | 2,646 | 8,836 | (4,246) | (3,544) | (2,924) | (1,075) | 205 | 102 | - | - |

Note 38 Concentration of funding

| | The Banking Group | | | The Bank | | |
|--|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| Funding consists of | | | | | | |
| Deposits at fair value | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Deposits at amortised cost | 30,109 | 28,619 | 29,027 | 29,870 | 28,619 | 29,011 |
| Trading liabilities and other financial liabilities designated at fair value | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Debt issues ¹ | 16,810 | 11,492 | 12,369 | 2,251 | 1,753 | 2,203 |
| Perpetual subordinated notes | 970 | 970 | 970 | 970 | 970 | 970 |
| Due to related entities | 1,468 | 2,584 | 2,426 | 23,829 | 20,293 | 20,236 |
| Total funding | 51,783 | 50,031 | 50,145 | 59,346 | 58,001 | 57,773 |
| Analysis of funding by product | | | | | | |
| Savings accounts | 5,659 | 6,762 | 5,822 | 5,659 | 6,762 | 5,822 |
| Certificates of deposits | 2,426 | 4,069 | 3,468 | 2,426 | 4,069 | 3,468 |
| Demand deposits | 4,068 | 4,451 | 4,111 | 4,068 | 4,451 | 4,111 |
| Other deposits and borrowings | 37,192 | 28,898 | 31,463 | 22,394 | 19,159 | 21,281 |
| Securities sold under agreements to repurchase | - | 2,297 | 1,885 | - | 2,297 | 1,885 |
| Perpetual subordinated notes | 970 | 970 | 970 | 970 | 970 | 970 |
| Subtotal | 50,315 | 47,447 | 47,719 | 35,517 | 37,708 | 37,537 |
| Due to related entities | 1,468 | 2,584 | 2,426 | 23,829 | 20,293 | 20,236 |
| Total funding | 51,783 | 50,031 | 50,145 | 59,346 | 58,001 | 57,773 |
| Analysis of funding by geographical areas¹ | | | | | | |
| New Zealand | 34,226 | 36,098 | 36,278 | 56,349 | 53,807 | 54,073 |
| Australia | 2,997 | 2,441 | 2,977 | 2,997 | 2,441 | 2,977 |
| United Kingdom | 1,202 | 4,161 | 692 | - | - | - |
| United States of America | 7,076 | 3,428 | 5,335 | - | - | - |
| Other | 6,282 | 3,903 | 4,863 | - | 1,753 | 723 |
| Total funding | 51,783 | 50,031 | 50,145 | 59,346 | 58,001 | 57,773 |
| Analysis of funding by industry and economic sector | | | | | | |
| Accommodation, cafes and restaurants | 112 | 111 | 95 | 112 | 111 | 95 |
| Agriculture, forestry and fishing | 1,299 | 1,248 | 1,241 | 1,299 | 1,248 | 1,241 |
| Construction | 345 | 380 | 360 | 345 | 380 | 360 |
| Finance and insurance | 23,353 | 21,009 | 22,050 | 8,555 | 11,270 | 11,868 |
| Government, administration and defence | 677 | 586 | 493 | 677 | 586 | 493 |
| Manufacturing | 618 | 582 | 600 | 618 | 582 | 600 |
| Mining | 43 | 22 | 22 | 43 | 22 | 22 |
| Property | 2,374 | 2,736 | 1,998 | 2,374 | 2,736 | 1,998 |
| Services | 2,685 | 2,604 | 2,724 | 2,685 | 2,604 | 2,724 |
| Trade | 757 | 740 | 685 | 757 | 740 | 685 |
| Transport and storage | 415 | 555 | 383 | 415 | 555 | 383 |
| Utilities | 291 | 169 | 205 | 291 | 169 | 205 |
| Retail lending | 16,248 | 16,322 | 16,256 | 16,248 | 16,322 | 16,256 |
| Other | 1,098 | 383 | 607 | 1,098 | 383 | 607 |
| Subtotal | 50,315 | 47,447 | 47,719 | 35,517 | 37,708 | 37,537 |
| Due to related entities | 1,468 | 2,584 | 2,426 | 23,829 | 20,293 | 20,236 |
| Total funding | 51,783 | 50,031 | 50,145 | 59,346 | 58,001 | 57,773 |

¹ The geographic region used for debt issues is the location of the original purchaser. These instruments may have subsequently been on-sold.

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

Note 39 Concentration of credit exposures

| | The Banking Group | | | The Bank | | |
|---|--------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------------|--|
| | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m | 31 March 2010 Unaudited \$m | 31 March 2009 Unaudited \$m | 30 September 2009 Audited \$m |
| On-balance sheet credit exposures consists of | | | | | | |
| Cash and balances with central banks | 239 | 320 | 213 | 239 | 320 | 212 |
| Due from financial institutions | 3 | 3 | 3 | - | - | - |
| Trading securities and other financial assets designated at fair value | 4,609 | 4,652 | 4,421 | 4,609 | 4,652 | 4,421 |
| Available-for-sale securities | 56 | 38 | 37 | 56 | 38 | 37 |
| Derivative financial instruments | 18 | 26 | 22 | 18 | 26 | 22 |
| Loans | 49,369 | 47,793 | 48,174 | 49,215 | 47,621 | 48,015 |
| Due from related entities | 842 | 453 | 576 | 8,351 | 8,385 | 8,129 |
| Other assets | 153 | 157 | 142 | 151 | 154 | 139 |
| Total on-balance sheet credit exposures | 55,289 | 53,442 | 53,588 | 62,639 | 61,196 | 60,975 |
| Analysis of on-balance sheet credit exposures by geographical areas | | | | | | |
| New Zealand | 55,233 | 53,404 | 53,551 | 62,583 | 61,158 | 60,938 |
| United States of America | 56 | 38 | 37 | 56 | 38 | 37 |
| Total on-balance sheet credit exposures | 55,289 | 53,442 | 53,588 | 62,639 | 61,196 | 60,975 |
| Analysis of on-balance sheet credit exposures by industry and economic sector | | | | | | |
| Accommodation, cafes and restaurants | 587 | 516 | 577 | 587 | 516 | 577 |
| Agriculture, forestry and fishing | 5,625 | 5,147 | 5,368 | 5,625 | 5,146 | 5,368 |
| Construction | 1,284 | 1,258 | 1,380 | 1,284 | 1,258 | 1,380 |
| Finance and insurance | 3,330 | 4,029 | 3,179 | 3,327 | 4,026 | 3,176 |
| Government, administration and defence | 2,897 | 2,068 | 2,670 | 2,897 | 2,068 | 2,669 |
| Manufacturing | 1,389 | 1,562 | 1,402 | 1,389 | 1,562 | 1,402 |
| Mining | 71 | 51 | 59 | 71 | 51 | 59 |
| Property | 8,767 | 8,860 | 8,656 | 8,767 | 8,860 | 8,656 |
| Property services and business services | 1,451 | 1,362 | 1,370 | 1,451 | 1,362 | 1,370 |
| Services | 2,347 | 2,350 | 2,315 | 2,347 | 2,350 | 2,315 |
| Trade | 2,243 | 2,102 | 2,139 | 2,243 | 2,101 | 2,139 |
| Transport and storage | 727 | 647 | 686 | 727 | 647 | 686 |
| Utilities | 208 | 166 | 168 | 208 | 166 | 168 |
| Retail lending | 24,099 | 23,344 | 23,456 | 23,938 | 23,169 | 23,294 |
| Other | 56 | 57 | 82 | 56 | 57 | 82 |
| Subtotal | 55,081 | 53,519 | 53,507 | 54,917 | 53,339 | 53,341 |
| Provisions for impairment on loans | (672) | (559) | (520) | (667) | (556) | (517) |
| Due from related entities | 842 | 453 | 576 | 8,351 | 8,385 | 8,129 |
| Other assets | 38 | 29 | 25 | 38 | 28 | 22 |
| Total on-balance sheet credit exposures | 55,289 | 53,442 | 53,588 | 62,639 | 61,196 | 60,975 |
| Off-balance sheet credit exposures | | | | | | |
| Contingent liabilities and commitments | 3,399 | 3,681 | 3,779 | 3,399 | 3,681 | 3,779 |
| Total off-balance sheet credit exposures | 3,399 | 3,681 | 3,779 | 3,399 | 3,681 | 3,779 |
| Analysis of off-balance sheet credit exposures by industry and economic sector | | | | | | |
| Accommodation, cafes and restaurants | 17 | 20 | 25 | 17 | 20 | 25 |
| Agriculture, forestry and fishing | 74 | 87 | 140 | 74 | 87 | 140 |
| Construction | 171 | 100 | 189 | 171 | 100 | 189 |
| Finance and insurance | 23 | 119 | 39 | 23 | 119 | 39 |
| Government, administration and defence | 22 | 1 | 83 | 22 | 1 | 83 |
| Manufacturing | 97 | 102 | 154 | 97 | 102 | 154 |
| Mining | 3 | 3 | 6 | 3 | 3 | 6 |
| Property services and business services | 767 | 397 | 493 | 767 | 397 | 493 |
| Trade | 185 | 192 | 243 | 185 | 192 | 243 |
| Transport and storage | 10 | 34 | 40 | 10 | 34 | 40 |
| Utilities | 1 | 8 | 8 | 1 | 8 | 8 |
| Retail lending | 2,029 | 2,618 | 2,359 | 2,029 | 2,618 | 2,359 |
| Total off-balance sheet credit exposures | 3,399 | 3,681 | 3,779 | 3,399 | 3,681 | 3,779 |

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

Comparative numbers for the Banking Group and the Bank's credit exposures by industry and economic sector have been restated as a result of continuing analysis of credit exposures data.

Note 39 Concentration of credit exposures (continued)

Analysis of credit exposures to individual 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 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: 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 that equals or exceeds 10% of the Banking Group's equity:

- as at 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil).

The peak end-of-day aggregate credit exposure has 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 do not include exposures to connected persons or to the central government of any country 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.

Note 40 Credit exposures to connected persons and non-bank connected persons

The Banking Group's credit exposure to connected persons is derived in accordance with the Reserve Bank document 'Connected exposures policy' (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits, are net of specific provisions and exclude advances to connected persons of a capital nature. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group has been derived by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's Tier One Capital as at the end of the period.

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis, and partially on a gross basis. Netting has occurred in respect of certain transactions which are the subject of the bilateral netting agreements disclosed in the Bank's most recent Supplemental Disclosure Statement (refer to page 10). On this basis, there is a limit of 125% of the Banking Group's Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

| | The Banking Group | | | |
|--|---|--|---|--|
| | As at 31 March 2010 Unaudited \$m | Peak End-of-day for the Three Months Ended 31 March 2010 Unaudited \$m | As at 31 March 2009 Unaudited \$m | Peak End-of-day for the Three Months Ended 31 March 2009 Unaudited \$m |
| Credit exposures to connected persons: | | | | |
| On gross basis, before netting | 1,061 | 1,861 | 797 | 3,795 |
| As a percentage of Tier One Capital of the Banking Group at end of the period (on gross basis, before netting) | 32.4% | 56.8% | 26.2% | 124.6% |
| Netted amount | 25 | 344 | 285 | 2,098 |
| As a percentage of Tier One Capital of the Banking Group at end of the period (netted amount) | 0.8% | 10.5% | 9.4% | 68.9% |
| On partial bilateral net basis | 1,036 | 1,517 | 512 | 1,697 |
| As a percentage of Tier One Capital of the Banking Group at end of the period (on partial bilateral net basis) | 31.6% | 46.3% | 16.8% | 55.7% |
| Credit exposures to non-bank connected persons | - | - | - | - |
| As a percentage of Tier One Capital of the Banking Group at end of the period | 0.0% | 0.0% | 0.0% | 0.0% |

Comparative peak end-of-day numbers for the Banking Group have been restated as a result of continuing analysis of the Banking Group's credit exposures to connected persons.

As at 31 March 2010, the rating-contingent limit applicable to the Banking Group was 75% of Tier One Capital. Within this overall rating-contingent limit there is a sub-limit of 15% of Tier One Capital which applies to the aggregate credit exposure to non-bank connected persons. There have not been any changes in these limits during the three months ended 31 March 2010.

Note 40 Credit exposures to connected persons and non-bank connected persons (continued)

The limits on aggregate credit exposure to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the three months ended 31 March 2010.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with a syndicate of banks. These arrangements are called risk lay-off arrangements. As at 31 March 2010, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons) (31 March 2009: nil, 30 September 2009: nil).

The aggregate amount of the Banking Group's specific provisions provided against credit exposures to connected persons was nil as at 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Auditors' review report



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Auditors' Review Report

To the shareholders of Westpac New Zealand Limited

We have reviewed pages 13 to 93 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 9 and Clause 17 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the '**Order**'). The financial statements provide information about the past financial performance and cash flows of Westpac New Zealand Limited (the '**Bank**') and its controlled entities (the '**Banking Group**') for the six months ended 31 March 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 19 to 29 and the requirements of the Order.

The supplementary information contains information prepared in accordance with Schedules 4 to 9 and Clause 17 of Schedule 3 of the Order.

This report is made solely to the Bank's shareholders, as a body. Our review work has been undertaken so that we might state to the Bank's shareholders those matters which we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, as a body, for our review procedures, for this report, or for the opinions we have formed.

Directors' Responsibilities

The Directors of Westpac New Zealand Limited are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which give a true and fair view of the financial position of the Bank and the Banking Group as at 31 March 2010 and their financial performance and cash flows for the six months ended on that date and which are not false or misleading. The Directors are also responsible for including supplementary information in the General Disclosure Statement which complies with Schedules 3 to 9 of the Order.

Reviewers' Responsibilities

We are responsible for reviewing the financial statements and the supplementary information disclosed in accordance with Clause 23, Schedules 4 to 9, and Clause 17 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in the balance sheet and Notes 34, 35, 36, 37.1, 37.3, 37.4, 39 and 40), we are responsible for reviewing these financial statements in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the financial statements do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4), we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order, and for reporting our findings to you.

Auditors' review report (continued)



Auditors' Review Report

To the shareholders of Westpac New Zealand Limited

In respect of the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4, we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

- (i) prepared in accordance with the Bank's conditions of registration;
- (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and
- (iii) disclosed in accordance with Schedule 5B of the Order

and for reporting our findings to you.

Basis of Review Opinion

Our review has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We carry out other assignments on behalf of the Bank and the Banking Group in the area of taxation advice and other assurance services. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and Westpac Banking Corporation Group. We have no other interests in the Bank, the Banking Group or Westpac Banking Corporation Group.

Review Opinion

We have examined the financial statements and the supplementary information disclosed in accordance with Clause 23, Schedules 4 to 9, and Clause 17 of Schedule 3 of the Order.

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the financial statements (excluding the supplementary information disclosed in the balance sheet and Notes 34, 35, 36, 37.1, 37.3, 37.4, 39 and 40) do not present a true and fair view of the financial position of the Bank and the Banking Group as at 31 March 2010 and their financial performance and cash flows for the six months ended on that date;
- (b) the supplementary information disclosed in the balance sheet and Notes 34, 35, 39 and 40 prescribed by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- (c) the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4, as required by Schedule 5B of the Order, is not in all material respects:
 - (i) prepared in accordance with the Bank's conditions of registration;
 - (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
 - (iii) disclosed in accordance with Schedule 5B of the Order.

Our work was completed on 26 May 2010 and our review opinion is expressed as at that date.

A handwritten signature in cursive script that reads 'Price Waterhouse Coopers'.

Chartered Accountants

Auckland

