Westpac Banking Corporation's general short form disclosure statement

for the three months ended 31 December 2005

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General information and definitions

The information contained in this General Short Form Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

In this General Short Form Disclosure Statement reference is made to four main reporting groups:

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business. The NZ Banking Group includes the following subsidiary entities:
  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited and its subsidiary company - Holding company
  - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
  - TBNZ Limited and its subsidiary companies - Holding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - The Warehouse Financial Services Limited - Financial services company
  - Westpac Capital - NZ - Limited and its subsidiary companies - Holding company
  - Westpac Finance Limited - Finance company
  - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - WestpacTrust Securities NZ Limited - Funding company
  - BLE Capital (NZ) Limited - Finance company
  - Hastings Forestry Investments Limited - Non-trading company
  - Tasman Funding No. 1 and its jointly owned subsidiary company - Funding company
  - Tasman Funding No. 2 and its jointly owned subsidiary company - Funding company
  - Westpac NZ Funding - Funding company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Bank**') – refers to the New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2005.

All amounts referred to in this General Short Form Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank of New Zealand Act 1989. However, for the purposes of this General Short Form Disclosure Statement, the registered bank is the NZ Bank. The NZ Bank's head office is situated at, and the address for service is, Level 15, 188 Quay Street, Auckland, New Zealand.

Overseas Bank

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

The Overseas Bank's principal office is located at 60 Martin Place, Sydney, New South Wales 2000, Australia.

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. There have been no changes to these credit ratings in the two preceding years.

These credit ratings are given without any qualifications:

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

Descriptions of credit rating scales

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	**AA**	**Aa**	**AA**
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB

The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC
Obligations currently in default.	D	-	C

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

Ratings stated in **bold** indicate the Overseas Bank's current approximate position within the Credit Rating Scales.

Financial statements of the Overseas Bank and the Overseas Banking Group

Copies of the NZ Bank's most recent Supplemental Disclosure Statement, which contains a copy of the most recent publicly available financial statements of the Overseas Bank and the Overseas Banking Group, will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Bank's head office, Level 15, 188 Quay Street, Auckland. They are also available, free of charge, within five working days of any request, at any branch, agency, or any other staffed premises primarily engaged in the business of the NZ Bank to which its customers have access in order to conduct banking business.

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group can also be accessed at the internet address www.westpac.com.au.

Risk management policies

There have been no material changes to the risk management policies and no new categories of risk to which the NZ Banking Group has become exposed in the three months prior to 31 December 2005.

Market risk

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the eighth schedule (sub-clauses (1)(a), (8)(a) and (11)(a)) of the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

The peak end-of-day exposures and as at exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2005 (30 September 2004 for comparatives).

	As at 31 December 2005 Unaudited $m	Peak End-of-Day For the Three Months Ended 31 December 2005 Unaudited $m	As at 31 December 2004 Unaudited $m	Peak End-of-Day For the Three Months Ended 31 December 2004 Unaudited $m
Aggregate interest rate exposure	**312**	**377**	123	199
As a percentage of the Overseas Banking Group's equity	**1.65%**	**2.13%**	0.71%	1.14%
Aggregate foreign currency exposure	**2**	**4**	2	3
As a percentage of the Overseas Banking Group's equity	**0.01%**	**0.02%**	0.01%	0.02%

The NZ Banking Group has no material exposure to equity risk.

Guarantee arrangements

No material obligations of the Overseas Bank are guaranteed.

Ranking of local creditors in a winding-up

There are material legislative restrictions in the Overseas Bank's country of incorporation which subordinate the claims of a class of unsecured creditors of the Registered Bank on the assets of the Overseas Bank to those of another class of unsecured creditors of the Overseas Bank, in a winding-up of the Overseas Bank.

The Banking Act 1959 in Australia gives priority over Australian assets of the Overseas Bank to Australian depositors. Accordingly, New Zealand depositors (together with all other senior unsecured creditors of the Overseas Bank) will rank after Australian depositors of the Overseas Bank in relation to claims against Australian assets.

However, the Westpac Banking Corporation Act 1982 (New Zealand) gives New Zealand depositors priority to the New Zealand assets of the Overseas Bank. Accordingly, New Zealand depositors will rank ahead of other unsecured creditors of the Overseas Bank in respect of claims against the New Zealand assets of the Overseas Bank.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Bank on the assets of the Overseas Bank relative to those of any other class of unsecured creditors of the Overseas Bank, in the event of a winding-up of the Overseas Bank.

The Overseas Bank is an authorised deposit-taking institution (ADI) for the purposes of the Banking Act 1959 (Australia). Section 13A(3) of that Act states:

> "If an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet that ADI's deposit liabilities in Australia in priority to all other liabilities of the ADI."

Section 13A(3) of the Banking Act 1959 (Australia) affects all of the unsecured deposit liabilities of the NZ Bank which as at 31 December 2005 amounted to $28,180 million (31 December 2004 $27,099 million, 30 September 2005 $27,664 million).

Section 13A(4) of the Banking Act 1959 (Australia) states that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless the Australian Prudential Regulation Authority has authorised the ADI to hold assets of a lesser value. The Overseas Bank has at all times during the three months ended 31 December 2005, held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

The requirements of these sections have the potential to impact on the management of the liquidity of the NZ Banking Group.

Section 23 of the Westpac Banking Corporation Act 1982 (New Zealand) provides that:

> "Deposit liabilities –
>
> (1) Except as otherwise authorised by the Reserve Bank of New Zealand, the Continuing Bank shall at all times hold in New Zealand assets (other than goodwill) of not less than the value of the total of the Continuing Bank's deposit liabilities in New Zealand.
>
> (2) In the event of the Continuing Bank becoming unable to meet its obligations or suspending payment, the assets of the Continuing Bank in New Zealand shall be available to meet the Continuing Bank's deposit liabilities in New Zealand in priority to all other liabilities of the Continuing Bank.
>
> (3) Every person who acts in contravention of or fails to comply with subsection (1) of this section commits an offence and is liable on conviction on indictment to a fine not exceeding $25,000 and, if the offence is a continuing one, to a further fine not exceeding $2,000 for every day on which the offence has continued.
>
> (4) Nothing in this section limits the provisions of the Reserve Bank of New Zealand Act 1989."

During the three months ended 31 December 2005, the NZ Bank has at all times held in New Zealand assets (other than goodwill) of not less than the value of the NZ Bank's total deposit liabilities in New Zealand. The Overseas Bank is the 'Continuing Bank' within the meaning of section 23.

Local incorporation

The Reserve Bank of New Zealand's (the 'Reserve Bank') policy is that all systemically important banks must incorporate as a local entity rather than operate via a branch. In December 2004, the Board of the Overseas Bank announced that the key operations in New Zealand would be locally incorporated. The Overseas Bank received agreement in principle from the Reserve Bank on its proposed incorporation model on 27 October 2005 and has commenced the consultation process for the legislation required to implement local incorporation.

Conditions of registration

The conditions of registration imposed on the NZ Bank, which applied from 1 July 2004, are as follows:

1. That the NZ 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.
2. That the NZ Banking Group's insurance business is not greater than one percent of its total consolidated assets. For the purposes of this condition:
   (i) 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 disapplied 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;
   (ii) In measuring the size of the NZ Banking Group's insurance business:
      (a) 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;
      (b) otherwise, the size of each insurance business conducted by any entity within the NZ 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;
      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the NZ 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;
      (d) 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.
3. That the business of the NZ Bank does not constitute a predominant proportion of the business of the Overseas Bank.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the NZ Bank shall be made unless:
   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.
5. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That the Overseas Bank complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
   – tier one capital of the Overseas Bank is not less than four percent of risk weighted exposures;
   – capital of the Overseas Bank is not less than eight percent of risk weighted exposures.

(Further information on the capital adequacy of the Overseas Bank is contained in Note 16 to the financial statements.)

For the purposes of these conditions of registration, the term 'NZ Banking Group' means the New Zealand operations of Westpac Banking Corporation and all those subsidiaries of Westpac Banking Corporation whose business is required to be reported in financial statements for the group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993.

Registered bank: directorate

Directors

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

Leonard Andrew Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM
David Raymond Morgan, BEc, MSc, PhD
Gordon McKellar Cairns, MA (Hons.)
David Alexander Crawford, BCom, LLB, FCA, FCPA
Edward Alfred Evans, AC, BEcon, DUni (Grif)
Carolyn Judith Hewson, BEc (Hons.), MA (Econ.)
Helen Ann Lynch, AM
Peter David Wilson, CA

There have been no changes to the composition of the Overseas Bank's Board of Directors since the publication of the General Disclosure Statement for the year ended 30 September 2005.

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Ann Sherry, has been authorised in writing by each Director named on this page, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this General Short Form Disclosure Statement on the Director's behalf. Accordingly, Ann Sherry is a Responsible Person under the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

Ann Sherry, AO, BA, GradDipIR, MAICD, FAIBF, FIPAA
Chief Executive Officer, Westpac New Zealand

Directors' statement

Each Director of the Overseas Bank believes and the Chief Executive Officer, Westpac New Zealand believes, after due enquiry, that, as at the date on which this General Short Form Disclosure Statement is signed:

i. the Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand); and

ii. the Short Form Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, Westpac New Zealand believes, after due enquiry, that, over the three months ended 31 December 2005:

i. the NZ Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989; and

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

This Directors' Statement has been signed on behalf of the Directors by Ann Sherry who also signs in her personal capacity as Chief Executive Officer, Westpac New Zealand.

Ann Sherry

Dated this the 8th day of March 2006.

Consolidated short form financial statements

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Consolidated income statement for the three months ended 31 December 2005

		NZ Banking Group		
		Three Months Ended 31 December 2005 Unaudited	Three Months Ended 31 December 2004 Unaudited	Year Ended 30 September 2005 Audited
	Note	**$m**	$m	$m
Interest income		**888**	731	3,081
Interest expense		**(594)**	(503)	(2,019)
Net interest income		**294**	228	1,062
Non-interest income:				
Fees and commissions		**91**	122	439
Wealth management revenue		**16**	16	66
Trading income		**16**	38	28
Other non-interest income		**2**	8	12
Total non-interest income		**125**	184	545
Operating income		**419**	412	1,607
Operating expenses		**(166)**	(172)	(680)
Impairment losses on loans	2	**(1)**	(10)	(44)
Operating profit before income tax expense		**252**	230	883
Income tax expense		**(82)**	(49)	(216)
Operating profit after income tax expense		**170**	181	667
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		**(1)**	(1)	(5)
Profit attributable to equity holders of NZ Banking Group		**169**	180	662

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes to the accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some amounts for this period are not comparable to prior periods. Refer to Note 19 for an explanation of these changes.

Consolidated statement of changes in equity and head office account

for the three months ended 31 December 2005

	Share Capital $m	Branch Capital $m	Cash Flow Hedge Reserve $m	Retained Profits $m	Convertible Debentures $m	Minority Interests $m	Total $m
	NZ Banking Group						
Previously reported balance as at 30 September 2004 (audited)	132	-	-	1,065	1,994	1,236	4,427
Effect of transition to NZ IFRS	-	6	-	(82)	9	(650)	(717)
Adjusted opening balance as at 1 October 2004	132	6	-	983	2,003	586	3,710
Three months ended 31 December 2004							
Operating profit after income tax expense	-	-	-	180	-	1	181
Total recognised income for the three months ended 31 December 2004	-	-	-	180	-	1	181
Dividends:							
Dividends paid or provided for on NZ Class shares	-	-	-	(26)	-	-	(26)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	-	-	(10)	-	-	(10)
Purchase of NZ Class shares – Treasury Stock	-	-	-	-	-	(1)	(1)
As at 31 December 2004 (unaudited)	132	6	-	1,127	2,003	586	3,854
Year ended 30 September 2005							
Operating profit after income tax expense	-	-	-	662	-	5	667
Total recognised income for the year ended 30 September 2005	-	-	-	662	-	5	667
Dividends:							
Dividends paid or provided for on NZ Class shares	-	-	-	(54)	-	-	(54)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	-	-	(107)	-	-	(107)
Branch capital received	-	698	-	-	-	-	698
Share-based payments	-	4	-	-	-	-	4
Redemption of NZ Class shares	-	-	-	(40)	-	(579)	(619)
Remittance to the Overseas Bank	-	-	-	(333)	-	-	(333)
As at 30 September 2005 (audited)	132	708	-	1,111	2,003	12	3,966
Adoption of NZ IAS 32/39	-	-	12	60	(719)	-	(647)
Adjusted opening balance as at 1 October 2005	132	708	12	1,171	1,284	12	3,319
Three months ended 31 December 2005							
Net change in cash flow hedges (net of tax)	-	-	(6)	-	-	-	(6)
Operating profit after income tax expense	-	-	-	169	-	1	170
Total recognised income for the three months ended 31 December 2005	-	-	(6)	169	-	1	164
Share capital issued	1	-	-	-	-	-	1
As at 31 December 2005 (unaudited)	133	708	6	1,340	1,284	13	3,484

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes to the accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some amounts for this period are not comparable to prior periods. Refer to Note 19 for an explanation of these changes.

Consolidated balance sheet as at 31 December 2005

		NZ Banking Group		
	Note	**31 December 2005 Unaudited $m**	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Assets				
Cash and balances with central banks		**201**	178	96
Due from other financial institutions		**348**	923	361
Derivative financial instruments		**1,206**	1,208	960
Other financial assets at fair value	3	**1,550**		
Other trading assets	3	**4,127**	3,553	4,127
Available-for-sale securities	4	**450**		
Loans	5,6	**37,953**	36,944	37,286
Life insurance assets		**69**	74	64
Due from related entities		**1,317**	1,281	993
Goodwill and other intangible assets		**660**	642	654
Property, plant and equipment		**100**	109	107
Income tax receivable		**-**	-	46
Deferred tax assets		**94**	185	143
Other assets		**388**	240	499
Total assets		**48,463**	45,337	45,336
Less:				
Liabilities				
Due to other financial institutions		**3,833**	911	1,745
Deposits at fair value	8	**2,998**	3,873	3,847
Deposits at amortised cost	8	**25,182**	23,126	23,717
Derivative financial instruments		**1,135**	2,227	1,153
Other trading liabilities	9	**228**	333	345
Debt issues		**8,763**	8,841	8,553
Current tax liabilities		**15**	55	-
Deferred tax liabilities		**1**	5	9
Provisions		**47**	29	45
Other liabilities		**528**	374	596
Total liabilities excluding subordinated debentures and due to related entities		**42,730**	39,774	40,010
Subordinated debentures	10	**1,462**	731	758
Total liabilities excluding due to related entities		**44,192**	40,505	40,768
Due to related entities		**787**	978	602
Total liabilities		**44,979**	41,483	41,370
Net assets		**3,484**	3,854	3,966
Represented by:				
Shareholders' equity and head office account				
Ordinary share capital		**133**	132	132
Branch capital		**708**	6	708
Cash flow hedge reserve		**6**		
Retained profits		**1,340**	1,127	1,111
Convertible debentures	11	**1,284**	2,003	2,003
Total NZ Banking Group equity and head office account		**3,471**	3,268	3,954
NZ Class shares	12	**-**	578	-
Other minority interests		**13**	8	12
Total equity and head office account		**3,484**	3,854	3,966

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes to the accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some amounts for this period are not comparable to prior periods. Refer to Note 19 for an explanation of these changes.

Consolidated statement of cash flows for the three months ended 31 December 2005

	NZ Banking Group		
	Three Months Ended 31 December 2005 Unaudited $m	Three Months Ended 31 December 2004 Unaudited $m	Year Ended 30 September 2005 Audited $m
Cash flows from operating activities			
Interest income received	**874**	723	3,095
Interest paid	**(545)**	(473)	(1,971)
Other non-interest income received	**140**	195	536
Net acquisition of other trading assets	**-**	(742)	(1,316)
Net acquisition/(disposal) of other trading liabilities	**(117)**	149	161
Net (acquisition)/disposal of derivative financial instruments	**(269)**	293	(506)
Non-interest expenses paid	**(113)**	(215)	(658)
Income tax paid	**-**	53	(122)
Net cash flows from operating activities	**(30)**	(17)	(781)
Cash flows from investing activities			
Net (increase)/decrease in due from other financial institutions - term	**(55)**	(15)	479
Net acquisition of other financial assets at fair value	**(1,550)**		
Net acquisition of available-for-sale securities	**(450)**		
Net loans advanced to customers	**(545)**	(1,552)	(1,928)
Net (acquisition)/disposal of life insurance assets	**(4)**	(2)	6
Net increase in due from related entities	**(199)**	(531)	(243)
Net (increase)/decrease in other assets	**42**	79	(179)
Purchase of property, plant and equipment	**(2)**	(10)	(28)
Purchase of capitalised computer software	**(14)**	(7)	(47)
Proceeds from disposal of property, plant and equipment	**2**	7	6
Net cash used in investing activities	**(2,775)**	(2,031)	(1,934)
Cash flows from financing activities			
Issue of ordinary share capital	**1**	-	-
Purchase of NZ Class shares - Treasury Stock	**-**	(1)	(1)
Redemption of NZ Class shares	**-**	-	(618)
Branch capital received	**-**	-	698
Net increase/(decrease) in due to other financial institutions - term	**1,577**	(270)	629
Net increase in deposits	**616**	1,707	2,272
Net proceeds from debt issues	**191**	880	592
Net increase/(decrease) in due to related entities	**90**	152	(224)
Net decrease in other liabilities	**(144)**	(315)	(108)
Payment of dividends on convertible debentures	**-**	(15)	(159)
Payment of dividends on NZ Class shares	**-**	(26)	(54)
Remittance to the Overseas Bank	**-**	-	(333)
Net cash provided by financing activities	**2,331**	2,112	2,694

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes to the accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some amounts for this period are not comparable to prior periods. Refer to Note 19 for an explanation of these changes.

Consolidated statement of cash flows (continued) for the three months ended 31 December 2005

	NZ Banking Group		
	Three Months Ended 31 December 2005 Unaudited $m	Three Months Ended 31 December 2004 Unaudited $m	Year Ended 30 September 2005 Audited $m
Net (decrease)/increase in cash and cash equivalents	**(474)**	64	(21)
Cash and cash equivalents at beginning of the period	**187**	208	208
Cash and cash equivalents at end of the period	**(287)**	272	187
Cash and cash equivalents comprise:			
Cash	**201**	178	96
Due from other financial institutions – at call	**248**	384	316
Due to other financial institutions – at call	**(736)**	(290)	(225)
Cash and cash equivalents at end of the period	**(287)**	272	187
Reconciliation of operating profit after income tax expense to net cash flows from operating activities			
Operating profit after income tax expense attributable to equity holders of NZ Banking Group	**169**	180	662
Adjustments:			
Amortisation of intangible assets	**8**	11	39
Impairment losses on loans	**1**	10	44
Depreciation/amortisation	**7**	7	29
Gain on sale of property, plant and equipment	**-**	-	(1)
Share-based payments	**-**	-	4
Intragroup minority interests in subsidiary companies	**1**	1	5
Movement in accrued assets	**5**	8	7
Movement in accrued liabilities	**83**	(36)	(3)
Movement in income tax provisions	**82**	102	94
Net acquisition of other trading assets	**-**	(742)	(1,316)
Net acquisition/(disposal) of other trading liabilities	**(117)**	149	161
Net (acquisition)/disposal of derivative financial instruments	**(269)**	293	(506)
Net cash flows from operating activities	**(30)**	(17)	(781)

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes to the accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some amounts for this period are not comparable to prior periods. Refer to Note 19 for an explanation of these changes.

Notes to the consolidated short form financial statements

Note 1 Statement of accounting policies

General accounting policies

Statutory base

These consolidated short form financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand), the Reserve Bank of New Zealand Act 1989, applicable New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the Accounting Standards Review Board. This is the first off-quarter that the NZ Banking Group's financial statements have been prepared in accordance with NZ IFRS. Reconciliations and descriptions of the impact of the transition from previous New Zealand Generally Accepted Accounting Practice (NZ GAAP) to NZ IFRS on the NZ Banking Group's reported balance sheet, income statement and statement of cash flows are provided in Note 19.

These consolidated short form financial statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*.

Compliance with NZ IFRS ensures that the consolidated short form financial statements and accompanying notes also comply with International Financial Reporting Standards.

In these consolidated short form financial statements reference is made to the following reporting groups:

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

These consolidated short form financial statements were authorised for issue by the Board of Directors on 8 March 2006.

Basis of preparation

The consolidated short form 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 held for trading and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

These consolidated short form financial statements are the first short form financial statements to be prepared by the NZ Banking Group in accordance with NZ IFRS. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these consolidated short form financial statements.

The NZ Banking Group has made the following elections as provided in NZ IFRS 1:

- not to apply NZ IFRS 3 *Business Combinations* retrospectively to any past business combinations (business combinations that occurred before the date of transition to NZ IFRS);
- to recognise all cumulative superannuation plan actuarial gains and losses at the date of transition to NZ IFRS and to use the 'corridor' approach for later actuarial gains and losses;
- to apply NZ IFRS 2 *Share-based Payment* retrospectively for all options and performance share rights not yet vested as at the date of transition to NZ IFRS, even if granted on or before 7 November 2002; and
- not to apply NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* for comparative information.

The accounting policies have been consistently applied by the NZ Banking Group for all the financial periods presented in these consolidated short form financial statements and in preparing an opening NZ IFRS balance sheet as at 1 October 2004 for the purpose of transition to NZ IFRS, except for the adoption of NZ IAS 32 and NZ IAS 39. The NZ Banking Group has continued to apply previous NZ GAAP in the comparative information to financial instruments within the scope of these standards. The date of transition to NZ IAS 32 and NZ IAS 39 was 1 October 2005. The nature of the changes in accounting policies that would make the information comply with these standards is disclosed in Note 19.

These consolidated short form financial statements have been prepared based upon management's interpretation of the currently issued NZ IFRS standards. Management's interpretation could change and therefore, until the NZ Banking Group and the NZ Bank prepare their first full year NZ IFRS financial statements, there is a possibility that the accompanying disclosures may have to be adjusted and that any adjustments could be material.

Early adoption

The NZ Banking Group has elected to apply NZ IAS 19 *Employee Benefits* (issued May 2005) to the financial reporting period beginning 1 October 2005. This includes applying NZ IAS 19 to the comparatives in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* The NZ Banking Group has also elected to apply NZ IAS 39 (issued January 2005) to the financial reporting period beginning 1 October 2005 and has elected not to restate comparatives in accordance with the provisions of NZ IFRS 1.

Note 1 Statement of accounting policies (continued)

Basis of aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Bank, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited and the consolidated capital and reserves of Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1, Tasman Funding No. 2, Westpac (NZ) Funding and Westpac Financial Services Group - NZ - Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

Foreign currency

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

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the NZ Banking Group have been recognised in the income statement within operating profit.

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 yield method.

The effective yield method is a method of calculating the amortised cost of a financial asset or a financial liability and of 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 rate of interest 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 accrual basis over the period during which the service is performed. All fees related to the origination or settlement of loans (together with the related direct costs) are deferred on the balance sheet and recognised in the income statement over the expected life of the loan on an effective yield basis. Asset management fees relating to investment funds are recognised over the period the service is provided.

Trading income

Trading income includes realised and unrealised gains and losses from trading assets and trading liabilities (including all derivatives except derivatives that are designated as effective hedging instruments) and financial assets and financial liabilities designated at inception as fair value through profit or loss.

Gain or loss on sale of property, plant and equipment

The 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 asset and is recognised as non-interest income.

Expense recognition

Interest expense

Interest expense is recognised in the income statement for all instruments at amortised cost using the effective interest method.

Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term. 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 are recognised in the income statement over the period which the related service is consumed.

Note 1 Statement of accounting policies (continued)

Share-based compensation – options and performance share rights

Certain employees hold options and performance share rights granted by the Overseas Bank.

The fair value of options and performance share rights is recognised as an expense with a corresponding increase in branch capital. 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 or performance share right.

The fair value of options and performance share rights has been estimated at 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 and performance share rights excludes the impact of any non-market vesting conditions such as participants continued employment by the NZ Banking Group. The non-market vesting conditions are included in assumptions used when determining the number of options and performance share rights expected to become exercisable for which an expense is recognised. At each reporting date these assumptions are revised and the expense recognised each period takes into account the most recent estimates.

The amount recognised as an expense is not adjusted for options and performance share rights that do not become exercisable due to the failure to satisfy market related performance hurdles.

Taxation

Income tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted as at the balance sheet date, and any adjustment to tax payable in respect of previous 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 sheet date that are expected to apply when the liability is settled or the asset is realised.

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.

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

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 Department. 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 plus costs directly attributable to the acquisition. 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.

Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the NZ Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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 NZ Banking Group's incremental borrowing rate.

Assets

Financial assets

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

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for the selling or repurchasing it in the near term, if it is part of a portfolio of identical financial instruments 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 at inception by management.

Note 1 Statement of accounting policies (continued)

(ii) Loans

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

(iii) Available-for-sale financial assets

Available-for-sale financial assets are those 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.

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, the date on which the NZ 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 NZ Banking Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. 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 for 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. However, interest calculated using the effective interest method 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 (and for unlisted securities), the NZ 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 includes cash at branches.

Due from other financial institutions

Receivables from other financial institutions include loans, nostro balances and settlement account balances due from other financial institutions. They are accounted for as loans (refer above).

Other financial assets at fair value

Certain bonds, notes and commercial bills are classified as financial assets at fair value through profit or loss (refer above).

Other trading assets

Other trading assets include debt securities and securities purchased under agreement to resell. They are accounted for as financial assets at fair value through profit or loss (refer above).

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 (refer above).

Loans

Loans, advances and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. They are accounted for as loans (refer 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.

Impairment of financial assets

Impaired financial assets include:

- 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; and
- real estate or other assets acquired through security enforcement or where the NZ Banking Group has assumed ownership of an asset in settlement of all or part of a debt.

Although not classified as impaired assets, assets that are in arrears for 90 or more consecutive days, but are well-secured are reported separately. These are known as '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'.

Note 1 Statement of accounting policies (continued)

(i) Assets carried at amortised cost

The NZ Banking Group assesses as at each balance sheet 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, and only 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 NZ 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 NZ Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the NZ 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 NZ 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 NZ 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 loss on loans carried at amortised cost has been incurred, the amount of the loss 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 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. As a practical expedient, the NZ Banking Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the NZ 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 evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the NZ Banking Group and historical loss experience for assets with credit risk characteristics similar to those in the NZ 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 NZ 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 loss is reversed. The amount of the reversal is recognised in the income statement.

(ii) Assets carried at fair value

The NZ Banking Group assesses as at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of 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 profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through 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.

Note 1 Statement of accounting policies (continued)

Investments in related entities

Investments in related entities are initially recorded by the NZ 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, plus costs directly attributable to the acquisition. Investments in related entities are written-down to recoverable amount where appropriate.

Life insurance assets

Assets held by the life insurance company, including investments in related entities, are initially recorded at cost and then adjusted to net market value as at each balance sheet date. Net market value adjustments are included in the income statement. The company's assets comprise the life insurance fund and can only be used within the restrictions imposed under the Life Insurance Act 1908. The main restriction is that the assets in the fund can only be used to meet the liabilities and expenses of the life insurance business of the company or as distributions when solvency requirements are met, and cannot be used to support any other business of the company.

Goodwill and other intangible assets

Goodwill represents amounts arising on the acquisition of businesses. In respect of acquisitions that have occurred since 1 October 2004, goodwill represents the excess of purchase consideration, including incidental expenses associated with the acquisition, over the fair value of the NZ Banking Group's share of the identifiable net assets acquired.

In respect of acquisitions prior to this date, goodwill is recorded at deemed cost, which represents the amount recorded under previous NZ GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 October 2004 has not been reconsidered in preparing the opening NZ IFRS balance sheet as at 1 October 2004.

Goodwill is tested for impairment 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 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.

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. These costs are amortised on the basis of the expected useful lives, which is normally three years.

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 NZ Banking Group.

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 when incurred. Impairment losses are recognised as a non-interest 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:

- Premises and sites — Up to 67 years
- Leasehold improvements — Up to 10 years
- Furniture and equipment — 3 - 15 years

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying value and are included in the income statement.

Impairment of non-financial assets

The carrying amount of the NZ Banking Group's non-financial assets, other than deferred tax assets, are reviewed as at each balance sheet 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 cash-generating unit exceeds its recoverable amount. With the exception of goodwill for which impairment losses are generally not reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 cash-generating unit) in prior periods. Except for impairment losses recognised or reversed upon the transition to NZ IFRS, impairment losses and reversals of impairment losses are recognised in the income statement. Details of reversals recognised in the opening NZ IFRS balance sheet as at 1 October 2004 are disclosed in Note 19.

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 cash-generating unit to which the asset belongs.

Note 1 Statement of accounting policies (continued)

Liabilities

Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated as fair value through profit or loss.

(i) Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are measured at amortised cost.

(ii) Deposits at fair value

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

(iii) Deposits at amortised cost

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

(iv) Other trading liabilities and other financial liabilities at fair value

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

(v) Debt issues

These are bonds, notes and commercial paper that have been issued by the NZ Banking Group. They are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Debt issues are subsequently measured at amortised cost using the effective yield method to amortise cost at inception to the redemption value over the expected life of the debt.

Life insurance policy liabilities and margin on services

Life insurance policy liabilities are calculated using the Margin on Services methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*. Provision has also been made for estimated liabilities in respect of claims notified, but not settled as at the balance sheet date, together with an allowance for incurred, but not reported claims.

Subordinated debentures

Subordinated debentures comprise Fixed Interest Resettable Trust Securities (FIRsTS) and junior subordinated debentures that have been issued by the NZ Banking Group. They are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective yield method to amortise cost at inception to the redemption value over the expected life of the debt.

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 sheet date are recognised in other provisions 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 sheet 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 sheet date are recognised in the provision for long service leave and are measured at the present value of expected future payments expected to be made in respect of services provided by employees up to the balance sheet 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 at the reporting date on government bonds with terms that match as closely as possible 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 at the reporting date less the fair value at the reporting date of the scheme's assets as adjusted for unrecognised past service costs. The carrying amount of an asset recognised in respect of the defined benefit superannuation scheme is restricted to the total of any unrecognised past service cost and the present value of available refunds from the scheme and reductions in future contributions to the scheme. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of NZ Government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The cost recognised in the income statement in respect of the defined benefit superannuation scheme comprises the current service cost, an interest cost and an expected return on the scheme's assets. In addition, actuarial gains or losses which result from annual actuarial valuations, which exceed 10% of the greater of the present value of the defined benefit scheme's obligations or the market value of the defined benefit scheme assets, are spread on a straight-line basis over the expected remaining service period of members of the respective schemes.

Termination benefits

Liabilities for termination benefits, not in connection with a business combination, are recognised when a detailed plan for the 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 creditors unless the timing or amount is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits relating to a business combination are recognised as at the date of acquisition if, at or before the acquisition date, the main features of the terminations were planned and a valid expectation has been raised in those employees affected that the termination would be carried out and this is supported by a detailed plan. These liabilities are disclosed in aggregate with other restructuring costs arising as a consequence of the acquisition.

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

Provisions

Provision for restructuring

A provision for restructuring on acquisition is recognised where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. The provisions relating to costs associated with an acquired entity are taken into account in measuring the fair value of the net assets acquired.

Other provisions for restructuring are 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 head office account

Ordinary shares

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

Branch capital

Branch capital comprises funds provided by the Overseas Bank and the amounts recognised as share-based compensation in respect of options and performance share rights granted by the Overseas Bank to employees of the NZ Bank. It is non-interest bearing and there is no fixed date for repatriation.

Convertible debentures

Convertible debentures are recognised in the balance sheet at the amount of consideration received, net of issue costs.

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the value of available-for-sale securities, net of tax. These changes are transferred to the income statement in other non-interest income when realised or a decrease in value is considered an impairment.

Cash flow hedge reserve

The cash flow hedge reserve comprises the fair value gains and losses associated with the effective portion of a hedging instrument. When the underlying transaction results in the recognition of an asset or liability, the cumulative gain or loss is transferred from the hedging reserve and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from the hedging reserve and recognised in the income statement at the same time as the hedged transaction or when the hedged transaction is no longer expected to occur.

Note 1 Statement of accounting policies (continued)

Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are initially recognised in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently remeasured 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. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Held for trading

Where the NZ Banking Group enters into derivatives for trading purposes or where derivatives do not qualify for hedge accounting, realised and unrealised gains and losses are recognised in net trading income. Trading derivatives including forwards, futures, options, forward purchases and sales of securities, entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposure.

Hedging

The NZ 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 of derivatives depends on the nature of the hedging relationship. Hedging relationships are of two types:

- fair value hedge: a hedge of the 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 NZ 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 NZ 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 NZ 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 normally regarded as highly effective if, at inception and throughout its life, the NZ 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%. '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.

(i) 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.

(ii) 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 the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (e.g. when the forecast transaction takes place).

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 when the forecast transaction is ultimately recognised in the income statement. 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 NZ Banking Group, through its loan securitisation programme, packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions the NZ Banking Group provides an equitable interest in the loans to investors who provide funding to finance them. Securitised loans and associated funds are included in loans and debt issues.

Note 1 Statement of accounting policies (continued)

Funds management and trust activities

Certain controlled entities within the NZ Banking Group conduct investment management and other fiduciary activities as trustee, custodian or manager on behalf of individuals, trusts, retirement benefit schemes and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties. Where these assets are in entities controlled by the NZ Banking Group they are included in the consolidated financial statements.

Where controlled entities, as trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

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 leased assets are allocated to the lessor.

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

In its capacity as a lessee, the NZ Banking Group mainly leases 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

A segment is a distinguishable component of the NZ Banking Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), that is subject to risks and returns of other business or geographical segments.

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Cash Flow Statements* 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 NZ Banking Group, which are unconditionally convertible at the investor's or customer's option within no more than two working days and include the inter-bank balances arising from the daily Reserve Bank of New Zealand 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 NZ Banking Group.

Note 2 Impairment losses on loans

	NZ Banking Group		
	Three Months Ended 31 December 2005 Unaudited $m	Three Months Ended 31 December 2004 Unaudited $m	Year Ended 30 September 2005 Audited $m
Individually assessed provisions	**4**	1	22
Provisions no longer required	**(5)**	(3)	(9)
Collectively impaired provision	**2**	8	12
Write-offs direct	**1**	10	35
Recoveries	**-**	(6)	(16)
Interest adjustments	**(1)**		
Total impairment losses on loans	**1**	10	44

Note 3 Other trading assets and other financial assets at fair value

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Other trading assets			
Trading securities	**3,782**	3,286	3,558
Securities purchased under agreement to resell	**345**	267	569
Total other trading assets	**4,127**	3,553	4,127
Other financial assets at fair value	**1,550**		
Total other trading assets and other financial assets at fair value	**5,677**	3,553	4,127
Listed trading securities			
NZ Government securities	**1,166**	1,390	1,038
NZ corporate securities	**47**	108	86
Other	**23**	20	-
Total listed trading securities	**1,236**	1,518	1,124
Unlisted trading securities			
NZ Government securities	**-**	2	1
NZ corporate securities:			
Certificates of deposit	**1,922**	1,405	2,032
Corporate bonds	**-**	1	7
Commercial paper	**613**	334	383
Mortgage backed securities	**11**	26	11
Total unlisted trading securities	**2,546**	1,768	2,434
Total trading securities	**3,782**	3,286	3,558

Note 4 Available-for-sale securities

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Listed securities			
NZ corporate securities	**450**		
Total available-for-sale securities	**450**		

Note 5 Loans

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Overdrafts	**1,216**	1,168	1,166
Credit card outstandings	**1,039**	986	978
Overnight and at call money market loans	**1,702**	1,181	1,552
Term loans:			
Housing	**22,272**	19,632	21,508
Non-housing	**11,152**	10,016	11,537
Other	**714**	4,245	846
Total gross loans	**38,095**	37,228	37,587
Provisions for impairment losses on loans	**(142)**	(284)	(301)
Total net loans	**37,953**	36,944	37,286

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

The NZ Banking Group had set-off agreements in respect of loans made to a bank, the maturity of which was linked strictly to an agreement to repay specific borrowings by the NZ Banking Group from that bank. The interest rate payable on the borrowings was lower than that receivable on the loans. As at 31 December 2005, no loans (31 December 2004 $3,650 million, 30 September 2005 nil) had been offset against the related borrowings of nil (31 December 2004 $3,590 million, 30 September 2005 nil) in the balance sheet. Related income and expense flows had been offset within the income statement with the excess of interest income over interest expense being included in total interest income.

Note 6 Impaired assets

	NZ Banking Group		
	Three Months Ended 31 December 2005 Unaudited $m	Three Months Ended 31 December 2004 Unaudited $m	Year Ended 30 September 2005 Audited $m
Gross individually impaired assets	**70**	50	80
Individually assessed provisions	**(17)**	(7)	(20)
Net individually impaired assets	**53**	43	60
Gross individually impaired assets			
Balance at beginning of the period	**80**	58	58
Additions	**19**	10	87
Amounts written off	**(1)**	-	(3)
Returned to performing or repaid	**(28)**	(18)	(62)
Balance at end of the period excluding restructured assets	**70**	50	80
Restructured assets			
Balance at beginning of the period	-	-	-
Additions	-	-	1
Returned to performing or repaid	-	-	(1)
Balance at end of the period	-	-	-
Total gross individually impaired assets	**70**	50	80
Individually assessed provisions			
Balance at beginning of the period	**20**	8	8
Adoption of NZ IAS 32/39	**(2)**		
Impairment losses on loans	**4**	1	22
Individually assessed provisions no longer required	**(5)**	(3)	(9)
Impairment losses on loans written off	**(1)**	1	(1)
Interest adjustments	**1**		
Balance at end of the period	**17**	7	20
Collectively impaired provision (previously called general provision)			
Balance at beginning of the period	**281**	269	269
Adoption of NZ IAS 32/39	**(139)**		
Impairment losses on loans	**(1)**	8	12
Balance at end of the period	**141**	277	281
Total impairment provisions	**158**	284	301
Provisions for impairment losses on loans	**142**	284	301
Provisions for impairment losses on off-balance sheet credit exposures	**16**		
Total impairment provisions	**158**	284	301
Past due assets			
Balance at beginning of the period	**37**	31	31
Additions	**12**	9	37
Deletions	**(17)**	(14)	(31)
Balance at end of the period	**32**	26	37
Other assets under administration			
Balance at beginning of the period	**16**	56	56
Additions	**1**	-	16
Deletions	-	(53)	(56)
Balance at end of the period	**17**	3	16

There were no unrecognised impaired assets as at 31 December 2005 (31 December 2004 nil, 30 September 2005 nil).

The NZ Banking Group does not have any real estate or other assets acquired through security enforcement.

Included within interest income for the three months ended 31 December 2005 was $2 million (three months ended 31 December 2004 $2 million, year ended 30 September 2005 $9 million) of interest income accrued on impaired assets.

Note 7 Interest earning assets and interest bearing liabilities

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Interest earning and discount bearing assets	**44,649**	41,498	41,911
Interest and discount bearing liabilities	**39,358**	36,997	36,698

Note 8 Deposits

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Deposits at fair value			
Certificates of deposit	**2,998**	3,873	3,847
Total deposits at fair value	**2,998**	3,873	3,847
Deposits at amortised cost			
Non-interest bearing, repayable at call[1]	**2,185**	2,111	2,030
Other interest bearing:			
At call[1]	**9,810**	8,579	9,376
Term	**13,187**	12,436	12,311
Total deposits at amortised cost	**25,182**	23,126	23,717
Total deposits	**28,180**	26,999	27,564

1 A number of non-interest bearing deposits were previously classified as interest bearing and amounts from prior financial periods have been restated to assist comparability.

Note 9 Other trading liabilities

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Securities sold short	**78**	-	19
Securities sold under agreements to repurchase	**150**	333	326
Total other trading liabilities	**228**	333	345

Note 10 Subordinated debentures

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Junior subordinated debentures	**738**	731	758
Fixed Interest Resettable Trust Securities[1]	**724**	-	-
Total subordinated debentures	**1,462**	731	758

1 Following the adoption of NZ IAS 32 and NZ IAS 39, on 1 October 2005, the Fixed Interest Resettable Trust Securities have been reclassified as subordinated debt and were included in total liabilities as at 31 December 2005. As comparative periods have not been restated for the effects of NZ IAS 32 and NZ IAS 39, the Fixed Interest Resettable Trust Securities were classified as convertible debentures and were included in equity as at 31 December 2004 and 30 September 2005.

Junior subordinated debentures

On 5 April 2004, the NZ Bank issued US$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV which have been recognised net of issue costs of NZ$9 million.

The convertible debentures are unsecured obligations of the NZ Bank and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Bank's obligations to its depositors and creditors, including other subordinated creditors, other than subordinated creditors holding subordinated indebtedness that ranks equally with, or junior to, the convertible debentures.

The convertible debentures will pay non-cumulative semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 5.256% up to but excluding 31 March 2016. From, and including 31 March 2016, the convertible debentures will pay non-cumulative quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate equal to LIBOR plus 1.7675% per annum. The convertible debentures will only pay distributions to the extent they are declared by the Board of Directors, or an authorised committee of the Board. Any distribution is subject to the Overseas Bank having sufficient distributable profits unless approved by the Australian Prudential Regulation Authority (APRA). If certain other conditions exist a distribution is not permitted to be declared.

The convertible debentures have no stated maturity, but will automatically convert into American Depositary Receipts (ADRs) each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US$25) on 31 March 2053, or earlier in the event that a distribution is not made or certain other events occur.

With the prior written consent of APRA, if required, the Overseas Bank may elect to redeem the convertible debentures for cash before 31 March 2016 in whole upon the occurrence of certain specific events and in whole or in part on any distribution date on or after 31 March 2016.

Fixed Interest Resettable Trust Securities

On 19 December 2002, the NZ Bank issued Convertible Debentures to Westpac Financial Services Limited as responsible entity (a public company with an Australian financial services license to operate a registered managed investment scheme) of Westpac Second Trust. The investment in convertible debentures was ultimately sourced from the proceeds of approximately A$655 million (net of issue costs) of Westpac Fixed Interest Resettable Securities (Westpac FIRsTS) issued by Westpac Funds Management Limited as responsible entity of Westpac First Trust. Both Westpac First Trust and Westpac Second Trust are Australian registered managed investment schemes and are members of the Overseas Banking Group.

The convertible debentures are unsecured obligations and rank subordinate and junior in right of payment of principal and interest to obligations to depositors and creditors including other subordinated creditors, other than subordinated creditors holding subordinated indebtedness that is stated to rank equally with, or junior to, the convertible debentures.

A distribution will only be paid on the convertible debentures if it is declared payable by a committee appointed by the Board of Directors. A distribution must not be declared if APRA has objected to it, or, if certain conditions exist, a distribution must not be declared payable unless approved by APRA. Distributions on the convertible debentures will be payable, if declared, on a quarterly basis on the last day of each quarter or the following business day. Until 31 December 2007, distributions will be calculated based on a rate of 7.82%.

The Overseas Bank may reset certain terms of the convertible debentures on nominated rollover dates, the first of which is 31 December 2007. On these rollover dates the Overseas Bank may, subject to APRA guidelines, reset the next rollover date, the distribution rate, the frequency of distribution dates and the date of the next scheduled distribution.

These convertible debentures will automatically convert into a fixed number of Overseas Bank preference shares (or alternative securities if the Overseas Bank is under legal impediment and cannot issue preference shares) on 19 December 2052 or where the NZ Bank fails to pay scheduled distributions on the convertible debentures and that failure continues unremedied for a period of 21 days. The convertible debentures will also automatically convert into the Overseas Bank ordinary shares based on a predetermined formula, if triggered by certain APRA regulatory actions affecting the Overseas Bank or in certain other limited circumstances (e.g. if a proceeding is commenced for the Overseas Bank to be wound up or liquidated). The Overseas Bank may elect to convert the convertible debentures into Overseas Bank ordinary shares in certain limited circumstances, such as where its ability to acquire or redeem Westpac FIRsTS is threatened.

These convertible debentures must be redeemed for cash at any time where the Overseas Bank has acquired the Westpac FIRsTS from Holders and has required Westpac Funds Management Limited to redeem the Westpac FIRsTS. The convertible debentures may also be redeemed for cash in other limited circumstances, such as where the ability of the Overseas Bank to acquire or redeem Westpac FIRsTS is threatened.

Note 11 Convertible debentures

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Trust preferred securities	**1,284**	1,284	1,284
Fixed Interest Resettable Trust Securities[1]	-	719	719
Total convertible debentures	**1,284**	2,003	2,003

1 Following the adoption of NZ IAS 32 and NZ IAS 39, on 1 October 2005, the Westpac FIRsTS have been reclassified as subordinated debt and were included in total liabilities as at 31 December 2005. As comparative periods have not been restated for the effects of NZ IAS 32 and NZ IAS 39, the Westpac FIRsTS were classified as convertible debentures and were included in equity as at 31 December 2004 and 30 September 2005. More information on the Westpac FIRsTS is provided in Note 10.

Trust preferred securities

During the year ended 30 September 2003, the NZ Bank issued Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust III (Funding Trust III). They represent the proceeds (net of issue costs) of approximately US$750 million of Trust Preferred Securities (2003 TPS) issued by the Overseas Banking Group in the United States of America.

The convertible debentures are unsecured obligations of the NZ Bank and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Bank's obligations to its depositors and creditors.

The convertible debentures will pay non-cumulative semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 7.57% up to but excluding 30 September 2013. From, and including, 30 September 2013 the convertible debentures will pay quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate equal to the New Zealand Bank Bill Rate plus 2.20% per annum. The convertible debentures will only pay distributions to the extent they are declared by the Board of Directors, or an authorised committee of the Board. Any distribution is subject to the Overseas Bank having sufficient distributable profits unless approved by APRA. If certain other conditions exist a distribution is not permitted to be declared.

The convertible debentures have no stated maturity, but will automatically convert into ADRs each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur. The 2003 TPS will then be redeemed for ADRs. The dividend payment dates on the Overseas Bank preference shares will be the same as those otherwise applicable to 2003 TPS. The dividend payment rate on the Overseas Bank preference shares will also be the same as that applicable to the 2003 TPS until 30 September 2013, after which the rate will be a floating rate equal to LIBOR plus a fixed margin.

Under the terms of the convertible debentures, the NZ Bank will make distributions in New Zealand dollars to Funding Trust III. Funding Trust III has entered into a currency swap with the Overseas Bank under which Funding Trust III has agreed to pay the Overseas Bank the New Zealand dollar distributions it receives on the convertible debentures in exchange for US dollars. The NZ Bank has also entered into a netting agreement under which it has agreed to pay any New Zealand dollar distributions on the convertible debentures direct to the Overseas Bank.

With the prior written consent of APRA, if required, the NZ Bank may elect to redeem the convertible debentures for cash before 30 September 2013 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 30 September 2013. The proceeds received by Funding Trust III from the redemption of the convertible debentures must be used to redeem the 2003 TPS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

Note 12 NZ Class shares

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
NZ Class shares on issue	-	598	-
NZ Class shares held as Treasury Stock	-	(20)	-
Balance at end of the period	-	578	-

On 12 October 1999, a controlled entity, Westpac (NZ) Investments Limited (WNZIL), issued 54,393,306 NZ Class shares. A first instalment of $7.20 per NZ Class share was received on application and a second instalment of $4.75 per NZ Class share was received on 20 December 2000.

The NZ Class shares were recorded at the total of the first instalment and the present value of the second instalment, net of issue costs.

Following a number of buybacks since 2002 and the buy-back from the Overseas Bank following the exchange of NZ Class shares for Overseas Bank ordinary shares (described below) in July 2005, there were no NZ Class shares on issue as at 31 December 2005 (31 December 2004 52,569,931, 30 September 2005 nil) with no NZ Class shares held as Treasury Stock (31 December 2004 1,125,000, 30 September 2005 nil).

Note 12 NZ Class shares (continued)

Exchange event

The Overseas Bank had previously advised WNZIL that it had the option to exercise a right to an Exchange Event as a consequence of the impact of new Australian tax rules (New Business Tax System (Debt and Equity) Act 2001) becoming law and affecting some payments in the NZ Class share structure. The Overseas Bank was adversely affected by these new Australian tax rules as the Overseas Bank would have been subject to Australian franking debits in relation to the NZ Class share structure from 1 July 2005.

In the Exchange Deed made by the Overseas Bank in favour of each NZ Class shareholder, the Overseas Bank had certain rights to exchange NZ Class shares for the Overseas Bank ordinary shares upon the occurrence of an Exchange Event. On 5 May 2005, the Overseas Bank announced that it intended to exercise that right.

NZ Class shares ceased trading on the New Zealand Stock Market from the close of business on 1 July 2005. Formal notification of the exchange was sent to NZ Class shareholders on 7 July 2005. As a result, NZ Class shareholders were entitled to receive one Overseas Bank ordinary share for each NZ Class share held on the exchange date. The Overseas Bank ordinary shares were allotted on 11 July 2005. In exchange, all NZ Class shares on issue were transferred to the Overseas Bank.

NZ Class shareholders received a final imputed dividend on the NZ Class shares, which was paid on 1 July 2005.

Buy-back and cancellation

On 27 July 2005, WNZIL bought back all the NZ Class shares held by the Overseas Bank for $618 million and the shares were subsequently cancelled.

Note 13 Commitments and contingent liabilities

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

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

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

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

The NZ Banking Group is obliged to repurchase securitised loans where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform with the terms and conditions of the Westpac Securitisation Trust programme. It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from this obligation.

Off-balance sheet credit risk related financial instruments were as follows:

	NZ Banking Group		
	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Contingent liabilities			
Direct credit substitutes	**277**	371	252
Transaction related contingent items	**576**	554	574
Short term, self liquidating trade related contingent liabilities	**646**	625	648
Total contingent liabilities	**1,499**	1,550	1,474

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

New Zealand Inland Revenue Department investigation

As disclosed in previous General Disclosure Statements, the New Zealand Inland Revenue Department (NZIRD) is reviewing a number of structured finance transactions as part of its audit of the 1999 to 2002 tax years. This is part of a broader NZIRD investigation and review of structured finance transactions in the New Zealand market.

The transactions in question have been progressively run down and have now all been unwound. Potential interest continues to accrue on the core tax if the NZIRD is successful in its challenge.

Note 13 Commitments and contingent liabilities (continued)

On 30 September 2004, the NZ Bank received assessments totalling $18 million ($25 million with interest) in respect of three transactions for the 1999 tax year. On 31 March 2005, the NZIRD issued further amended tax assessments relating to the 2000 tax year which will impact three structured finance transactions in place in the 1999 year and an additional two structured finance transactions undertaken in the 2000 year only. The maximum potential tax liability reassessed for the 2000 year is $61 million (with interest this increases to $85 million). The potential primary tax in dispute for all five of these transactions for the periods up to and including 31 December 2005 is $220 million (this includes the amounts noted above). With interest this increases to $299 million (calculated up to 31 December 2005). The additional tax assessed in respect of the 1999 and 2000 tax years ($79 million tax plus interest as noted above) has been paid to the NZIRD as 'tax in dispute' to prevent further interest accruing. This has been recorded in the financial statements as a receivable in 'Other assets' reflecting the NZ Bank's position as noted below.

The NZIRD is also investigating other transactions undertaken by the NZ Bank, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the periods up to and including 31 December 2005, the overall primary tax in dispute will be approximately $611 million (this includes the amounts noted above). With interest this increases to approximately $761 million (calculated up to 31 December 2005).

As previously disclosed, the NZ Bank is confident that the original tax treatment applied by it in all cases is correct. The NZ Bank remains of the view that the transactions are legitimate and do not constitute tax avoidance. Accordingly, no tax provision has been raised in respect of these matters. The NZ Bank sought a binding ruling from the NZIRD on an initial transaction in 1999 which, following extensive review by the NZIRD, was confirmed in early 2001. The principles underlying that ruling are applicable to, and have been followed in, all subsequent transactions.

Other contingent assets and liabilities

The New Zealand Commerce Commission is prosecuting the NZ Bank along with five other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 106 charges have been served on the NZ Bank in the District Court. The NZ Bank has entered not guilty pleas to the charges and the trial is scheduled to be heard in September 2006. The Commerce Commission may also prosecute The Warehouse Financial Services Limited, a member of the NZ Banking Group. As at the date of signing of the General Short Form Disclosure Statement by Directors, charges have not been served on The Warehouse Financial Services Limited. Penalties under the Fair Trading Act 1986 could include a fine of up to $200,000 per charge. In December 2005, the Commerce Commission also commenced related High Court proceedings against the NZ Bank claiming refunds of the currency conversion fees paid by customers during the relevant periods covered by the claim. The High Court claim is unlikely to be resolved before the District Court charges. The NZ Bank is considering its position in relation to the charges and the High Court claim, but at this stage does not consider it necessary to raise a specific provision in its financial statements.

The NZ Bank has a contingent liability, which arises from it holding an investment in Visa New Zealand Limited (Visa). Visa, as a group member of Visa International is responsible for the obligations (including settlement) of its members. Additionally, there are cross guarantee obligations for the Asia-Pacific region. There are caps in respect of both these obligations and reserves are held by Visa to cover the non-performance of any of its members. It is not envisaged that any liability resulting in a material loss to the NZ Bank will arise from these contingencies.

The Overseas Bank guarantees certain obligations of WestpacTrust Securities NZ Limited under funding programmes that provide funding to the NZ Banking Group.

The NZ Bank leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the NZ Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the NZ Bank upon vacation of all leased premises subject to these provisions is estimated to be $14 million. The NZ 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.

The NZ Banking Group has a contingent asset in respect of $2 million (31 December 2004 $2 million, 30 September 2005 $2 million) contributed to various funds managed by its wealth management subsidiaries. During the three months ended 31 December 2005, no funds were returned to the NZ Banking Group and was recognised in other non-interest income (three months ended 31 December 2004 $5 million, year ended 30 September 2005 $5 million). The repayment of the remaining sum is dependent on the future performance of these funds.

Other commitments

As at 31 December 2005, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate risk and currency risk. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

Overseas Banking Group guarantees and undertakings

Certain guarantees and undertakings extended to entities in the NZ Banking Group by the Overseas Banking Group are excluded from the consolidated amounts disclosed above. These include guarantees of commercial paper and other debt securities issued by WestpacTrust Securities NZ Limited that are immediately on lent to the Overseas Banking Group, in accordance with guidelines provided by APRA.

Note 14 Credit risk

Risk weighted exposures

The risk weighted exposures are derived in accordance with the Reserve Bank of New Zealand's Capital Adequacy Framework (the 'Framework') as required by the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

On-balance sheet non-risk weighted assets consist of market related contracts (derivatives) and intangible assets. These items have been excluded from the calculation of on-balance sheet risk weighted exposures in accordance with the Framework. Derivatives have been included in the table of off-balance sheet exposures for the purposes of risk weighting.

While a portion of securitised mortgages are excluded from the balance sheet, they are included in the New Zealand risk-adjusted exposures as required by the Framework.

The current exposure method has been used to calculate the credit equivalent of all market related contracts.

Calculation of on-balance sheet and derivative exposures

	NZ Banking Group 31 December 2005 – Unaudited		
	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	1,706	-	-
Long term claims on government	105	10%	11
Claims on banks	4,510	20%	902
Claims on public sector entities	208	20%	42
Residential mortgages	22,314	50%	11,157
Other assets	17,754	100%	17,754
Non-risk weighted assets	1,866		-
Total on-balance sheet exposures	**48,463**		**29,866**
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	576	50%	288
Total off-balance sheet securitised mortgage exposures	**576**		**288**

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk Weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	277	100%	277	100%	277
Total direct credit substitutes	**277**		**277**		**277**
Commitments					
Commitments with certain drawdown	33	100%	33	100%	33
Housing loan commitments with certain drawdown	110	100%	110	50%	55
Transaction related contingent items	576	50%	288	87%	250
Short term, self liquidating trade related contingent liabilities	646	20%	129	100%	129
Other commitments to provide financial services which have an original maturity of one year or more	6,690	50%	3,345	66%	2,205
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,688	0%	-	0%	-
Total commitments	**13,743**		**3,905**		**2,672**
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	34,425		627	26%	165
Options	101		1	0%	-
Swaps	20,680		1,144	26%	301
Interest rate contracts:					
Forwards	9,425		6	50%	3
Futures	20,132		-	0%	-
Options	5,230		5	40%	2
Swaps	111,832		899	29%	257
Total market related contracts (derivatives)	**201,825**		**2,682**		**728**
Total off-balance sheet and derivative exposures	**215,845**		**6,864**		**3,677**
Total risk weighted exposures					**33,831**

Note 14 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Banking Group 31 December 2004 – Unaudited		
	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	1,763	-	-
Long term claims on government	95	10%	10
Claims on banks	5,865	20%	1,173
Claims on public sector entities	171	20%	34
Residential mortgages	19,674	50%	9,837
Other assets	15,919	100%	15,919
Non-risk weighted assets	1,850		-
Total on-balance sheet exposures	45,337		26,973
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	523	50%	262
Total off-balance sheet securitised mortgage exposures	523		262

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk Weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	371	100%	371	100%	371
Total direct credit substitutes	371		371		371
Commitments					
Commitments with certain drawdown	72	100%	72	100%	72
Housing loan commitments with certain drawdown	60	100%	60	50%	30
Transaction related contingent items	554	50%	277	100%	277
Short term, self liquidating trade related contingent liabilities	625	20%	125	100%	125
Other commitments to provide financial services which have an original maturity of one year or more	5,956	50%	2,978	100%	2,978
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,699	0%	-	0%	-
Total commitments	12,966		3,512		3,482
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	30,275		1,033	25%	263
Options	108		1	0%	-
Swaps	14,108		868	29%	256
Interest rate contracts:					
Forwards	6,977		2	50%	1
Futures	9,480		-	0%	-
Options	2,054		7	43%	3
Swaps	89,081		885	35%	308
Total market related contracts (derivatives)	152,083		2,796		831
Total off-balance sheet and derivative exposures	165,420		6,679		4,684
Total risk weighted exposures					31,919

Note 14 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Banking Group 30 September 2005 – Audited		
	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	1,608	-	-
Long term claims on government	241	10%	24
Claims on banks	2,431	20%	486
Claims on public sector entities	204	20%	41
Residential mortgages	21,557	50%	10,779
Other assets	17,681	100%	17,681
Non-risk weighted assets	1,614		-
Total on-balance sheet exposures	45,336		29,011
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	590	50%	295
Total off-balance sheet securitised mortgage exposures	590		295

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk Weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	252	100%	252	100%	252
Total direct credit substitutes	252		252		252
Commitments					
Commitments with certain drawdown	28	100%	28	100%	28
Housing loan commitments with certain drawdown	97	100%	97	50%	49
Transaction related contingent items	574	50%	287	87%	249
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,229	50%	3,115	65%	2,016
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,741	0%	-	0%	-
Total commitments	13,317		3,657		2,472
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	38,636		642	25%	162
Options	124		1	0%	-
Swaps	16,552		854	28%	242
Interest rate contracts:					
Forwards	7,625		4	50%	2
Futures	11,404		-	0%	-
Options	4,756		4	50%	2
Swaps	97,660		864	29%	251
Total market related contracts (derivatives)	176,757		2,369		659
Total off-balance sheet and derivative exposures	190,326		6,278		3,383
Total risk weighted exposures					32,689

Note 15 Concentration of credit exposures

Analysis of credit exposures to individual counterparties

The number of counterparties to which the NZ Banking Group has a credit exposure equal to or greater than 10% of the Overseas Banking Group's equity is shown below.

10 - 20% of Overseas Banking Group's equity	As at 31 December 2005 Unaudited	Peak End-of-Day For the Three Months Ended 31 December 2005 Unaudited	As at 31 December 2004 Unaudited	Peak End-of-Day For the Three Months Ended 31 December 2004 Unaudited	As at 30 September 2005 Audited	Peak End-of-Day For the Three Months Ended 30 September 2005 Audited
Individual counterparties						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties	-	-	1	1	-	-
Non-bank counterparties	-	-	-	-	-	-

The peak end-of-day exposures and as at exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2005. The equity used in the 31 December 2004 comparatives was as at 30 September 2004. The equity used in the 30 September 2005 comparatives was as at 30 September 2005. Credit exposure used in the above calculations is determined with reference to actual credit exposures. 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 those counterparties if they are recorded outside New Zealand nor exposures to any OECD government. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of specific provisions.

The aggregate amount of the credit exposure and percentage of the Overseas Banking Group's equity to which the NZ Banking Group has a credit exposure equal to or greater than 10% of the Overseas Banking Group's equity is shown below.

10 - 20% of Overseas Banking Group's Equity	As at 31 December 2005 Unaudited	Percentage of Large Exposures Unaudited	As at 31 December 2004 Unaudited	Percentage of Large Exposures Unaudited	As at 30 September 2005 Audited	Percentage of Large Exposures Audited
Individual counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	2,000	100.0	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-

The NZ Banking Group predominantly has its market related contracts (derivatives) with other financial institutions (which include other banks and corporates) and the Overseas Banking Group.

Note 16 Capital adequacy

	30 September 2005 Audited %	30 September 2004 Audited %	Minimum Capital Adequacy Ratio Specified By APRA %
Overseas Banking Group			
Tier One Capital, expressed as a percentage of risk weighted exposures	7.2	6.9	4.0
Capital, expressed as a percentage of risk weighted exposures	9.7	9.7	8.0
Overseas Bank			
Tier One Capital, expressed as a percentage of risk weighted exposures	6.5	6.1	4.0
Capital, expressed as a percentage of risk weighted exposures	9.4	9.6	8.0

The Overseas Banking Group and the Overseas Bank are subject to the capital adequacy requirements as specified by APRA. The capital adequacy requirements are based on the framework proposed by the Basel Committee on Banking Supervision, which have been endorsed by banking supervisory authorities in the G10 and other industrial countries. Under these requirements, the Overseas Banking Group and the Overseas Bank are required to hold minimum capital at least equal to that specified under the Basel framework.

The Overseas Banking Group and the Overseas Bank exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2005 and 30 September 2004. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

Note 17 Segment information

The NZ Banking Group operates predominantly in the finance, residential mortgage and wealth management industries within New Zealand.

The basis of segment reporting reflects the management of the business within the Overseas Banking Group, rather than the legal structure of the NZ Banking Group. The business 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 business segment. Intersegment pricing is determined on an arm's length basis.

Primary reporting – business segments

The business segments are defined by the customers they service and the services they provide. The New Zealand Retail segment is responsible for servicing and product development for consumer and smaller to medium-sized customers within New Zealand, and includes the majority of the Corporate Head Office functions that exist within New Zealand. The Institutional Banking segment represents primarily corporations and institutional customers based in New Zealand, and also provides financial markets services to middle-market business banking customers in New Zealand. The Other Banking segment includes the results of Group Capital, Structured Finance and Group Treasury activities within the New Zealand geographical area.

	NZ Banking Group Three Months Ended 31 December 2005 – Unaudited			
	New Zealand Retail $m	**Institutional Banking $m**	**Other Banking $m**	**Total $m**
Operating revenue	**336**	**35**	**48**	**419**
Operating expenses	**(162)**	**(9)**	**5**	**(166)**
Profit attributable to equity holders of NZ Banking Group	**114**	**21**	**34**	**169**
Total external assets	**35,289**	**6,463**	**5,394**	**47,146**
Intragroup assets	**-**	**-**	**1,317**	**1,317**
Total assets	**35,289**	**6,463**	**6,711**	**48,463**
Total external liabilities	**20,714**	**3,486**	**19,992**	**44,192**
Intragroup liabilities	**-**	**-**	**787**	**787**
Total liabilities	**20,714**	**3,486**	**20,779**	**44,979**

Note 17 Segment information (continued)

	NZ Banking Group Three Months Ended 31 December 2004 – Unaudited			
	New Zealand Retail $m	Institutional Banking $m	Other Banking $m	Total $m
Operating revenue	355	37	20	412
Operating expenses	(168)	(9)	5	(172)
Profit attributable to equity holders of NZ Banking Group	119	15	46	180
Total external assets	31,059	5,794	7,203	44,056
Intragroup assets	-	-	1,281	1,281
Total assets	31,059	5,794	8,484	45,337
Total external liabilities	19,470	4,049	16,986	40,505
Intragroup liabilities	-	-	978	978
Total liabilities	19,470	4,049	17,964	41,483

	NZ Banking Group Year Ended 30 September 2005 – Audited			
	New Zealand Retail $m	Institutional Banking $m	Other Banking $m	Total $m
Operating revenue	1,394	136	77	1,607
Operating expenses	(649)	(34)	3	(680)
Profit attributable to equity holders of NZ Banking Group	483	57	122	662
Total external assets	34,028	7,293	3,022	44,343
Intragroup assets	-	-	993	993
Total assets	34,028	7,293	4,015	45,336
Total external liabilities	20,063	3,257	17,448	40,768
Intragroup liabilities	-	-	602	602
Total liabilities	20,063	3,257	18,050	41,370

Secondary reporting – geographic segments

The NZ Banking Group operates predominately within New Zealand.

Note 18 Insurance business

The NZ Banking Group conducts insurance business through one of its subsidiary companies, Westpac Life - NZ - Limited. Its primary insurance activities are the development, underwriting and management of products under life insurance legislation providing insurance cover against the risks of death and disability. It also manages a fire and general insurance agency arrangement as well as underwriting some redundancy and bankruptcy risks. The insurance business comprises less than one percent of the total assets of the NZ Banking Group.

The aggregate amount of the insurance business as at the balance sheet date was:

	31 December 2005 Unaudited $m	31 December 2004 Unaudited $m	30 September 2005 Audited $m
Total assets	**76**	79	72

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

Note 19 Explanation of transition to NZ IFRS

This is the first period that the NZ Banking Group has presented its financial statements in accordance with NZ IFRS. The last financial statements under NZ GAAP were for the year ended 30 September 2005, and except as detailed in Note 1, the date of transition to adopt NZ IFRS was 1 October 2004.

Comparative information

The opening balance sheet and the comparative figures for the year ended 30 September 2005 as well as for the three months ended 31 December 2004 have been presented under NZ IFRS, except that the NZ Banking Group has taken advantage of the exemptions available under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and excludes the impact of NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The main adjustments needed to make the comparative information conform to NZ IAS 32 and NZ IAS 39 are detailed below.

Hybrid instruments (NZ IAS 32 Financial Instruments: Disclosure and Presentation)

The NZ Bank has issued convertible debentures relating to Westpac Fixed Interest Resettable Trust Securities. Under previous NZ GAAP these were classified as equity. Had NZ IFRS been applied during the year ended 30 September 2005 then these would have been reclassified as debt and distributions on them treated as an Interest expense.

Effective yield (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS certain fees received and expenses incurred in the origination of loans are deferred on the balance sheet and subsequently recognised as a yield adjustment to Interest income. This would have affected the carrying value of loans, the classification of income and operating profit.

Hedge accounting (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, are carried at fair value on the balance sheet. Had NZ IFRS been applied during the year ended 30 September 2005 then new items would have appeared in the balance sheet for derivative assets, being the fair value of derivative financial instruments which have a positive fair value and derivative liabilities, being the fair value of derivative financial instruments which have a negative fair value.

NZ IFRS allows fair value hedge accounting and cash flow hedge accounting. These can only be applied when documentation requirements and effectiveness tests are met. Ineffectiveness can prevent the use of hedge accounting and/or result in significant volatility in the income statement. The hedging rules impact the way hedges of net interest margin, assets and liabilities are accounted for. Had NZ IFRS been applied then a cash flow hedge reserve being the reserve associated with cash flow hedge accounting would have been created. This would also have introduced some volatility to the income statement.

Loan impairment (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS the NZ Banking Group is required to apply an incurred loss approach for loan provisioning and follow specific rules on the measurement of incurred losses. Specific provisions would have been raised for losses that have already been incurred on loans that are known to be impaired. The estimated losses on these impaired loans would have been based on expected future cash flows discounted to their present value and as this discount unwinds, interest would have been recognised in the income statement. Loans not found to be individually impaired would have been collectively assessed for impairment in pools of similar assets with similar risk characteristics. The size of the provision would have been estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience would be adjusted based on current observable data. This would have led to a reduction in the amounts of the NZ Banking Group credit provisions.

Taxation (NZ IAS 12 Income Taxes)

Each of the changes detailed above would have been shown after applying the impact of taxation.

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004

		NZ Banking Group			
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP 30 September 2004 $m	Presentation Changes 30 September 2004 $m	Recognition and Measurement Changes 30 September 2004 $m	Opening NZ IFRS 1 October 2004 $m
Assets					
Cash and balances with central banks		101	-	-	101
Due from other financial institutions	ix	354	-	457	811
Derivative financial instruments	i	-	987	-	987
Other trading assets	ii	2,653	158	-	2,811
Loans	x	36,049	-	(647)	35,402
Life insurance assets	iii	-	72	-	72
Due from related entities		750	-	-	750
Goodwill and other intangible assets	iv, xi	564	99	(17)	646
Property, plant and equipment	iv	212	(99)	-	113
Income tax receivable	v	-	40	-	40
Deferred tax assets	v, xii	-	115	73	188
Other assets	xiii	1,808	(1,372)	(109)	327
Total assets		42,491	-	(243)	42,248
Less:					
Liabilities					
Due to other financial institutions		1,071	-	-	1,071
Deposits	vi	25,325	(25,325)	-	-
Deposits at fair value	vi	-	3,311	-	3,311
Deposits at amortised cost	vi, xiv	-	22,014	(33)	21,981
Derivative financial instruments	i	-	1,659	-	1,659
Other trading liabilities	vii	-	184	-	184
Debt issues	xv	7,772	-	189	7,961
Current tax liabilities	v	-	33	(33)	-
Deferred tax liabilities	v	-	6	-	6
Provisions	viii	-	41	2	43
Other liabilities	xvi	2,589	(1,923)	45	711
Total liabilities excluding subordinated debentures and due to related entities		36,757	-	170	36,927
Subordinated debentures		785	-	-	785
Total liabilities excluding due to related entities		37,542	-	170	37,712
Due to related entities		522	-	304	826
Total liabilities		38,064	-	474	38,538
Net assets		4,427	-	(717)	3,710
Represented by:					
Shareholders' equity					
Ordinary share capital		132	-	-	132
Branch capital	xvii	-	-	6	6
Retained profits	xviii	1,065	-	(82)	983
Convertible debentures	xix	1,994	-	9	2,003
Total NZ Banking Group equity		3,191	-	(67)	3,124
NZ Class shares		579	-	-	579
Other minority interests	xx	657	-	(650)	7
Total equity		4,427	-	(717)	3,710

For the accompanying notes to the reconciliation of equity as at 1 October 2004 refer to pages 39 and 40.

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 31 December 2004

		NZ Banking Group			
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP 31 December 2004 $m	Presentation Changes 31 December 2004 $m	Recognition and Measurement Changes 31 December 2004 $m	Restated NZ IFRS 1 December 2004 $m
Assets					
Cash and balances with central banks		178	-	-	178
Due from other financial institutions	ix	384	-	539	923
Derivative financial instruments	i	-	1,208	-	1,208
Other trading assets	ii	3,286	267	-	3,553
Loans	x	37,829	-	(885)	36,944
Life insurance assets	iii	-	74	-	74
Due from related entities		1,281	-	-	1,281
Goodwill and other intangible assets	iv, xi	552	95	(5)	642
Property, plant and equipment	iv	204	(95)	-	109
Deferred tax assets	v, xii	112	-	73	185
Other assets	xiii	1,910	(1,549)	(121)	240
Total assets		45,736	-	(399)	45,337
Less:					
Liabilities					
Due to other financial institutions		911	-	-	911
Deposits	vi	27,041	(27,041)	-	-
Deposits at fair value	vi	-	3,873	-	3,873
Deposits at amortised cost	vi, xiv	-	23,168	(42)	23,126
Derivative financial instruments	i	-	2,227	-	2,227
Other trading liabilities	vii	-	333	-	333
Debt issues	xv	8,496	-	345	8,841
Current tax liabilities	v	-	55	-	55
Deferred tax liabilities	v	5	-	-	5
Provisions	viii	-	27	2	29
Other liabilities	xvi	3,018	(2,642)	(2)	374
Total liabilities excluding subordinated debentures and due to related entities		39,471	-	303	39,774
Subordinated debentures		731	-	-	731
Total liabilities excluding due to related entities		40,202	-	303	40,505
Due to related entities		976	-	2	978
Total liabilities		41,178	-	305	41,483
Net assets		4,558	-	(704)	3,854
Represented by:					
Shareholders' equity					
Ordinary share capital		132	-	-	132
Branch capital	xvii	-	-	6	6
Retained profits	xviii	1,197	-	(70)	1,127
Convertible debentures	xix	1,994	-	9	2,003
Total NZ Banking Group equity		3,323	-	(55)	3,268
NZ Class shares		578	-	-	578
Other minority interests	xx	657	-	(649)	8
Total equity		4,558	-	(704)	3,854

For the accompanying notes to the reconciliation of equity as at 31 December 2004 refer to pages 39 and 40.

Note 19 Explanation of transition to NZ IFRS (continued)

Notes to reconciliation of equity as at 1 October 2004 and 31 December 2004

Presentation changes

i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.

v. Income tax receivable/Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

viii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Recognition and measurement changes

ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.

x. Loans
(a) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. The derecognition of these entities has resulted in a decrease in Loans of $660 million as at 1 October 2004 and as at 31 December 2004.
(b) The consolidation of special purpose vehicles (refer ix.) has resulted in an increase of $13 million as at 1 October 2004 and a decrease of $225 million as at 31 December 2004.

xi. Goodwill and other intangible assets
(a) Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill as at 1 October 2004 was adjusted by $17 million.
(b) Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase in goodwill of $12 million as at 31 December 2004.

xii. Deferred tax assets
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to the Deferred tax asset of $17 million as at 1 October 2004 and as at 31 December 2004.

xiii. Other assets
(a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of $7 million as at 1 October 2004 and $5 million as at 31 December 2004.
(b) The derecognition of a number of entities (refer x.) resulted in a decrease in assets of $108 million as at 1 October 2004 and $118 million as at 31 December 2004.
(c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $8 million as at 1 October 2004 and 31 December 2004.

xiv. Deposits at amortised cost
(a) The consolidation of special purpose vehicles (refer ix.) resulted in a decrease of $28 million as at 1 October 2004 and $37 million as at 31 December 2004.
(b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease of $5 million as at 1 October 2004 and 31 December 2004.

xv. Debt issues
Refer ix.

Note 19 Explanation of transition to NZ IFRS (continued)

Notes to reconciliation of equity as at 1 October 2004 and 31 December 2004 (continued)

xvi. Other liabilities

(a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of $12 million as at 1 October 2004 and $10 million as at 31 December 2004.

(b) The derecognition of a number of entities (refer x.) resulted in a decrease of $27 million as at 1 October 2004 and $72 million as at 31 December 2004.

(c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of $51 million as at 1 October 2004 and 31 December 2004.

(d) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of $9 million as at 1 October 2004 and 31 December 2004.

xvii. Branch capital

Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Bank is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xviii. Retained profits

(a) Goodwill adjustments (refer xi.) resulted in a decrease of $17 million as at 1 October 2004 and $5 million as at 31 December 2004.

(b) The derecognition of a number of entities (refer x.) resulted in a decrease of $7 million as at 1 October 2004 and $8 million as at 31 December 2004.

(c) The adjustment to defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $42 million as at 1 October 2004 and 31 December 2004.

(d) Deferred fees (refer xvi. (d)) resulted in a $6 million decrease as at 1 October 2004 and 31 December 2004.

(e) NZ IFRS tax adjustments resulted in a decrease of $1 million as at 1 October 2004 and 31 December 2004.

(f) Other NZ IFRS adjustments resulted in a decrease of $9 million as at 1 October 2004 and $8 million as at 31 December 2004.

xix. Convertible debentures

The adjustments relate to the tax effect on deal costs (refer xii. (a)).

xx. Other minority interests

Refer x. (a).

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005 and 1 October 2005

		NZ Banking Group						
			Effect of Transition to NZ IFRS					
	Note	Previous NZ GAAP 30 September 2005 $m	Presentation Changes 30 September 2005 $m	Recognition and Measurement Changes 30 September 2005 $m	Restated NZ IFRS 30 September 2005 $m	Note	Adoption of NZ IAS 32/39 1 October 2005 $m	Opening NZ IFRS 1 October 2005 $m
Assets								
Cash and balances with central banks		96	-	-	96		-	96
Due from other financial institutions	ix	316	-	45	361		-	361
Derivative financial instruments	i	-	960	-	960	xx	(66)	894
Other trading assets	ii	3,558	569	-	4,127		-	4,127
Loans	x	37,094	-	192	37,286	xxi	123	37,409
Life insurance assets	iii	-	64	-	64		-	64
Due from related entities		993	-	-	993	xxii	125	1,118
Goodwill and other intangible assets	iv, xi	517	106	31	654		-	654
Property, plant and equipment	iv	213	(106)	-	107		-	107
Income tax receivable	v	-	46	-	46		-	46
Deferred tax assets	v, xii	-	118	25	143	xxiii	(31)	112
Other assets	xiii	2,263	(1,757)	(7)	499	xxiv	(64)	435
Total assets		45,050	-	286	45,336		87	45,423
Less:								
Liabilities								
Due to other financial institutions		1,745	-	-	1,745		-	1,745
Deposits	vi	27,564	(27,564)	-	-		-	-
Deposits at fair value	vi	-	3,847	-	3,847		-	3,847
Deposits at amortised cost	vi	-	23,717	-	23,717		-	23,717
Derivative financial instruments	i	-	1,153	-	1,153	xx	(66)	1,087
Other trading liabilities	vii	-	345	-	345		-	345
Debt issues	xiv	8,308	-	245	8,553	xxv	19	8,572
Deferred tax liabilities	v, xii	-	9	-	9		-	9
Provisions	viii	-	43	2	45	xxvi	16	61
Other liabilities	xv	2,095	(1,550)	51	596	xxvii	(33)	563
Total liabilities excluding subordinated debentures and due to related entities		39,712	-	298	40,010		(64)	39,946
Subordinated debentures		758	-	-	758	xix	703	1,461
Total liabilities excluding due to related entities		40,470	-	298	40,768		639	41,407
Due to related entities		602	-	-	602	xxii	95	697
Total liabilities		41,072	-	298	41,370		734	42,104
Net assets		3,978	-	(12)	3,966		(647)	3,319
Represented by:								
Shareholders' equity								
Ordinary share capital		132	-	-	132		-	132
Branch capital	xvi	698	-	10	708		-	708
Cash flow hedge reserve		-	-	-	-	xxviii	12	12
Retained profits	xvii	1,142	-	(31)	1,111	xxix	60	1,171
Convertible debentures	xviii	1,994	-	9	2,003	xix	(719)	1,284
Total NZ Banking Group equity		3,966	-	(12)	3,954		(647)	3,307
Other minority interests		12	-	-	12		-	12
Total equity		3,978	-	(12)	3,966		(647)	3,319

For the accompanying notes to the reconciliation of equity as at 30 September 2005 and 1 October 2005 refer to pages 42 and 43.

Note 19 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity as at 30 September 2005 and 1 October 2005

Presentation changes

i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.

v. Income tax receivable/Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

viii. Provisions are shown of the face of the balance sheet and have been reclassified from Other liabilities.

Recognition and measurement changes

ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition rules. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.

x. Loans
Refer ix.

xi. Goodwill and other intangible assets
(a) Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill was adjusted by $17 million.
(b) Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase of $48 million.

xii. Deferred tax assets and Deferred tax liabilities
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to the Deferred tax asset of $17 million.

xiii. Other assets
The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $7 million.

xiv. Debt issues
Refer ix.

xv. Other liabilities
(a) The consolidation of special purpose vehicles (refer ix.) resulted in a decrease of $7 million.
(b) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of $50 million.
(c) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of $9 million.
(d) Other NZ IFRS adjustments have resulted in a decrease of $1 million.

xvi. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Bank is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xvii. Retained profits
(a) Goodwill adjustments (refer xii.) resulted in an increase of $31 million.
(b) The adjustment to defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $42 million.
(c) Deferred fees (refer xvi. (c)) resulted in a $6 million decrease.
(d) NZ IFRS tax adjustments resulted in a decrease of $2 million.
(e) Other NZ IFRS adjustments resulted in a decrease of $12 million.

xviii. Convertible debentures
Refer xii. (a).

Note 19 Explanation of transition to NZ IFRS (continued)

Notes to the restatement on adoption of NZ IAS 32/39 with effect from 1 October 2005

Presentation change

xix. Hybrid instruments relating to Westpac Fixed Interest Resettable Trust Securities have been reclassified from equity to debt. *For further details see explanation on page 36 regarding Hybrid instruments.*

Recognition and measurement changes

xx. Derivative financial instruments
For further details see explanation on page 36 regarding Hedge accounting.

xxi. Loans
(a) Provisions for loan impairment are based on objective evidence of impairment. This resulted in an increase of $169 million. *For further details see explanation on page 36 regarding Loan impairment.*
(b) Fee income and direct costs arising at loan origination are deferred and amortised to interest income over the life of the loan using the effective yield method. This resulted in a decrease of $46 million. *For further details see explanation on page 36 regarding Effective yield.*

xxii. Due from and Due to related entities
The movements are due to related entity derivative financial instruments (refer xx.).

xxiii. Deferred tax assets
The tax effect of the above measurement changes have been recognised.

xxiv. Other assets
(a) Deferred fees (*for further details see explanation on page 36 regarding Effective yield*) resulted in a decrease of $48 million.
(b) Swap fees previously amortised have now been written off. This resulted in a decrease of $15 million.
(c) Other NZ IFRS adjustments have resulted in a decrease of $1 million.

xxv. Debt issues
For further details see explanation on page 36 regarding Hedge accounting.

xxvi. Provisions
For further details see explanation on page 36 regarding Loan impairment.

xxvii. Other liabilities
For further details see explanation on page 36 regarding Hedge accounting.

xxviii. Cash flow hedge reserve
For further details see explanation on page 36 regarding Hedge accounting.

xxix. Retained profits
(a) Swap fees (refer xxiv. (b)) resulted in a decrease of $15 million.
(b) Loan adjustments (refer xxi.) resulted in an increase of $71 million.
(c) Deferred fees (refer xv. (c)) resulted in a decrease of $33 million.
(d) Derivatives (*for further details see explanation on page 36 regarding Hedge accounting)* resulted in a decrease of $42 million.
(e) Convertible debentures (*for further details see explanation on page 36 regarding Hybrid instruments)* resulted in an increase of $39 million.
(f) The consolidation of special purpose vehicles (refer ix.) resulted in a decrease of $5 million.
(g) NZ IFRS tax adjustments resulted in an increase of $39 million.
(h) Other NZ IFRS adjustments resulted in an increase of $6 million.

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of net profit after income tax expense

	Note	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
		NZ Banking Group			
		Three Months Ended 31 December 2004			
			Effect of Transition to NZ IFRS		
Interest income	i, iii	732	13	(14)	731
Interest expense	i, iv	(452)	(30)	(21)	(503)
Net interest income	i	280	(17)	(35)	228
Non-interest income:	ii	146	(146)	-	-
Fees and commissions	ii	-	122	-	122
Wealth management revenue	ii	-	16	-	16
Trading income	i, ii	21	17	-	38
Other non-interest income	ii	-	8	-	8
Total non-interest income		167	17	-	184
Operating income		447	-	(35)	412
Operating expenses	v	(183)	-	11	(172)
Impairment losses on loans		(10)	-	-	(10)
Operating profit before income tax expense		254	-	(24)	230
Income tax expense	vi	(85)	-	36	(49)
Operating profit after income tax expense		169	-	12	181
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(1)	-	-	(1)
Profit attributable to equity holders of NZ Banking Group		168	-	12	180

	Note	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
		NZ Banking Group			
		Year Ended 30 September 2005			
			Effect of Transition to NZ IFRS		
Interest income	i, iii	2,986	147	(52)	3,081
Interest expense	i, iv	(1,892)	(99)	(28)	(2,019)
Net interest income		1,094	48	(80)	1,062
Non-interest income:	ii	593	(593)	-	-
Fees and commissions	ii	-	439	-	439
Wealth management revenue	ii	-	66	-	66
Trading income	i, ii	-	28	-	28
Other non-interest income	ii	-	12	-	12
Total non-interest income		593	(48)	-	545
Operating income		1,687	-	(80)	1,607
Operating expenses	v	(726)	-	46	(680)
Impairment losses on loans		(44)	-	-	(44)
Operating profit before income tax expense		917	-	(34)	883
Income tax expense	vi	(292)	-	76	(216)
Operating profit after income tax expense		625	-	42	667
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	vii	(14)	-	9	(5)
Profit attributable to equity holders of NZ Banking Group		611	-	51	662

For the accompanying notes to the reconciliation of net profit after income tax expense for the three months ended 31 December 2005 and the year ended 30 September 2005 refer to page 45.

Note 19 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of net profit after income tax expense

Presentation changes

i. Net interest income from financial markets has been reclassified for both periods from Trading income to Net interest income.

ii. These items are now shown on the face of the income statement and have been reclassified from Non-interest income.

Recognition and measurement changes

iii. Interest income

(a) Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase of $21 million for the three months ended 31 December 2004 and $28 million for the year ended 30 September 2005.

(b) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. This has resulted in a decrease of $35 million for the three months ended 31 December 2004 and $80 million for the year ended 30 September 2005.

iv. Interest expense

(a) The consolidation of a number of special purpose vehicles has resulted in an increase of $21 million for the three months ended 31 December 2004 and $26 million for the year ended 30 September 2005 (refer iii. (a)).

(b) Other NZ IFRS adjustments resulted in an increase for the year ended 30 September 2005 of $2 million.

v. Operating expenses

(a) Under NZ IFRS goodwill acquired in business combinations is no longer amortised, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement, if it occurs. As a result, the goodwill previously amortised during the year ended 30 September 2005 has been reversed from the income statement and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS.
This resulted in a decrease to Operating expenses of $12 million for the three months ended 31 December 2004 and $48 million for the year ended 30 September 2005.

(b) Other NZ IFRS adjustments resulted in an increase of $1 million for the three months ended 31 December 2004 and $2 million for the year ended 30 September 2005.

vi. Income tax expense
Tax has been adjusted for the above transactions.

vii. Minority interests
Refer iii. (b).

Designation of financial assets and financial liabilities

All financial instruments, designated as fair value through profit or loss from 1 October 2005 were previously recorded at fair value. There were no changes in the carrying values of these instruments on adoption of NZ IAS 32/39.

Impairment of assets

No impairment losses were recognised on non-financial assets on transition to NZ IFRS.

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Banking Group			
	Three Months Ended 31 December 2004			
		Effect of Transition to NZ IFRS		
	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Cash flows from operating activities				
Interest income received	716	21	(14)	723
Interest paid	(420)	(30)	(23)	(473)
Other non-interest income received	164	31	-	195
Net acquisition of other trading assets	(347)	(395)	-	(742)
Net acquisition of other trading liabilities	-	149	-	149
Net disposal of derivative financial instruments	-	293	-	293
Non-interest expenses paid	(215)	(10)	10	(215)
Income tax paid	(16)	-	69	53
Net cash flows from operating activities	(118)	59	42	(17)
Cash flows from investing activities				
Net (increase)/decrease in due from other financial institutions – term	67	-	(82)	(15)
Net loans advanced to customers	(1,747)	(44)	239	(1,552)
Net acquisition of life insurance assets	-	(2)	-	(2)
Net increase in due from related entities	-	(531)	-	(531)
Net (increase)/decrease in other assets	(9)	78	10	79
Purchase of property, plant and equipment	(17)	7	-	(10)
Purchase of capitalised computer software	-	(7)	-	(7)
Proceeds from disposal of property, plant and equipment	7	-	-	7
Net cash used in investing activities	(1,699)	(499)	167	(2,031)
Cash flows from financing activities				
Purchase of NZ Class shares – Treasury Stock	(1)	-	-	(1)
Net decrease in due to other financial institutions – term	(270)	-	-	(270)
Net increase in deposits	1,716	-	(9)	1,707
Net proceeds from debt issues	724	-	156	880
Net decrease in subordinated debt	(54)	54	-	-
Net increase/(decrease) in due to related entities	(116)	564	(296)	152
Net decrease in other liabilities	(77)	(178)	(60)	(315)
Payment of dividends on convertible debentures	(15)	-	-	(15)
Payment of dividends on NZ Class shares	(26)	-	-	(26)
Net cash provided by financing activities	1,881	440	(209)	2,112
Net increase in cash and cash equivalents	64	-	-	64
Cash and cash equivalents at beginning of the period	208	-	-	208
Cash and cash equivalents at end of the period	272	-	-	272
Cash and cash equivalents comprise:				
Cash	178	-	-	178
Due from other financial institutions – at call	384	-	-	384
Due to other financial institutions – at call	(290)	-	-	(290)
Cash and cash equivalents at end of the period	272	-	-	272

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliation of equity provided on pages 39 and 40 and the reconciliation of net profit after income tax expense provided on page 45.

Note 19 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows (continued)

	NZ Banking Group			
	Year Ended 30 September 2005			
		Effect of Transition to NZ IFRS		
	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Cash flows from operating activities				
Interest income received	3,009	147	(61)	3,095
Interest paid	(1,852)	(99)	(20)	(1,971)
Other non-interest income received	517	20	(1)	536
Net acquisition of other trading assets	(1,694)	378	-	(1,316)
Net acquisition of other trading liabilities	-	161	-	161
Net acquisition of derivative financial instruments	-	(506)	-	(506)
Non-interest expenses paid	(613)	(45)	-	(658)
Income tax paid	(218)	-	96	(122)
Net cash flows from operating activities	(851)	56	14	(781)
Cash flows from investing activities				
Net decrease in due from other financial institutions – term	67	-	412	479
Net loans advanced to customers	(5,277)	-	3,349	(1,928)
Net disposal of life insurance assets	-	6	-	6
Net increase in due from related entities	-	(893)	650	(243)
Disposal of related entities	4,178	-	(4,178)	-
Net increase in other assets	(139)	(69)	29	(179)
Purchase of property, plant and equipment	(75)	47	-	(28)
Purchase of capitalised computer software	-	(47)	-	(47)
Proceeds from disposal of property, plant and equipment	6	-	-	6
Net cash used in investing activities	(1,240)	(956)	262	(1,934)
Cash flows from financing activities				
Purchase of NZ Class shares – Treasury Stock	(1)	-	-	(1)
Redemption of NZ Class shares	(618)	-	-	(618)
Branch capital received	698	-	-	698
Net increase in due to other financial institutions – term	629	-	-	629
Net increase in deposits	2,244	-	28	2,272
Net proceeds from debt issues	536	-	56	592
Net decrease in due to related entities	(813)	893	(304)	(224)
Net decrease in other liabilities	(59)	7	(56)	(108)
Payment of dividends on convertible debentures	(159)	-	-	(159)
Payment of dividends on NZ Class shares	(54)	-	-	(54)
Remittance to the Overseas Bank	(333)	-	-	(333)
Net cash provided by financing activities	2,070	900	(276)	2,694
Net decrease in cash and cash equivalents	(21)	-	-	(21)
Cash and cash equivalents at beginning of the year	208	-	-	208
Cash and cash equivalents at end of the year	187	-	-	187
Cash and cash equivalents comprise:				
Cash	96	-	-	96
Due from other financial institutions – at call	316	-	-	316
Due to other financial institutions – at call	(225)	-	-	(225)
Cash and cash equivalents at end of the year	187	-	-	187

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliation of equity provided on pages 42 and 43 and the reconciliation of net profit after income tax expense provided on page 45.

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Auditors' report

To the Directors of Westpac Banking Corporation

We have reviewed the short form financial statements on pages 7 to 47 and the supplementary information contained in the section 'Market Risk' on page 3. The short form financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Division (the 'NZ Banking Group') for the three months ended 31 December 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 12 to 21.

The short form financial statements consist of the consolidated short form financial statements of the NZ Banking Group, and contain the information required by Clause 10 of the Registered Bank Disclosure Statement (Off-Quarter – Overseas Incorporated Registered Banks) Order 2005 (the 'Order'). The supplementary information in the section 'Market Risk' on page 3 contains those disclosures required by Clause 10 of the Order.

Directors' responsibilities

The Directors are responsible for the preparation and presentation of the short form financial statements that present fairly the consolidated balance sheet of the NZ Banking Group as at 31 December 2005 and consolidated income statement, consolidated statement of changes in equity and head office account and consolidated statement of cash flows for the three months ended on that date. They are also responsible for the preparation and presentation of the supplementary information in accordance with Clause 10 of the Order.

Reviewers' responsibilities

We are responsible for reviewing the short form financial statements presented by the Directors in order to report whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the short form financial statements do not present fairly the matters to which they relate.

We are also responsible for reviewing the supplementary information disclosed in accordance with Clause 10 of the Order and presented by the Directors, in order to report whether, in our opinion, anything has come to our attention that would indicate that the supplementary information does not comply with Schedules 7 and 8 of the Order.

Basis of opinion

A review is limited primarily to enquiries of NZ Banking Group personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the short form financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the short form financial statements of the NZ Banking Group for the three months ended 31 December 2005 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We carry out other assignments on behalf of the NZ Banking Group in the areas of taxation and consulting advice. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of business of trading activities of the NZ Banking Group. We have no other interests in the NZ Banking Group.

Auditor's report (continued)

PRICEWATERHOUSECOOPERS

Review opinion

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

a) the short form financial statements do not:

   a. comply with generally accepted accounting practice in New Zealand;

   b. give a true and fair view of the financial position of the NZ Banking Group as at 31 December 2005 and its financial performance and cash flows for the three months ended on that date.

b) the supplementary information as required by Clause 10 of the Order does not give a true and fair view of the matters to which it relates; and

c) the supplementary information required by Clause 10 of the Order does not comply with Schedules 7 and 8 of the Order.

Our review was completed on 8 March 2006 and our review opinion is expressed as at that date.

Pricewaterhousecoopers

Chartered Accountants | Auckland