



# Westpac Banking Corporation's general disclosure statement

for the six months ended 31 March 2008

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## General information and definitions

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

In this General 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. As at 31 March 2008, the NZ Banking Group included the following subsidiary entities:
  - Westpac New Zealand Group Limited and its subsidiary companies - Holding company
  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited - Non-trading company
  - BT Financial Group (NZ) Limited and its subsidiary companies - Holding company
  - Westpac Equity Investments NZ Limited - Finance company
  - TBNZ Limited and its subsidiary companies - Holding 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
  - WestpacTrust Securities NZ Limited - Funding company
  - BLE Capital (NZ) Limited - Finance company
  - Hastings Forestry Investments Limited - Non-trading company
  - Tasman Funding No. 1 Limited and its jointly owned subsidiary company - Funding entity
  - Tasman Funding No. 2 Limited and its jointly owned subsidiary company - Funding entity
  - Westpac NZ Funding Limited - Funding entity
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to 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 2007 and for the six months ended 31 March 2008 respectively.

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

## General matters

### Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank of New Zealand Act 1989. However, for the purposes of this General Disclosure Statement, the registered bank is the NZ Branch. The NZ Branch'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 this date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office is located at 275 Kent Street, Sydney, New South Wales 2000, Australia.

## Registered bank: directorate and advisers

### Directors

The Directors of the Overseas Bank (**Board**) and their country of residence at the time this General Disclosure Statement was signed were:

**Name:** Edward Alfred Evans, AC, BEcon (Hons.)

**Non-executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of Navitas Limited.

**Name:** Gail Patricia Kelly, Dip. ED, BA, MBA, Doctor of Bus (Charles Sturt University)

**Non-executive:** No

**Country of Residence:** Australia

**Primary Occupation:** Chief Executive Officer

**Secondary Occupations:** None

**Board Audit Committee Member:** No

**Independent Director:** No

**External Directorships:** Director of each of Westpac New Zealand Limited and Melbourne Business School.

**Name:** Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)

**Non-executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Chairman of each of Caltex Australia Limited and UniSuper Limited. Director of each of Westpac New Zealand Limited and Australian Institute of Company Directors.

**Name:** Gordon McKellar Cairns, MA (Hons.)

**Non-executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of each of Origin Energy Limited, Centre for Independent Studies and Opera Australia. Member of the Asia Pacific Advisory Board of CVC Capital Partners, the Chairman of the Advisory Board of the Caliburn Partnership and Senior Advisor, McKinsey & Company.

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

**Non-executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of each of AGL Energy Limited and BT Investment Management Limited. Board and advisory roles with each of the Royal Humane Society, YWCA NSW, Nanosonics Limited, the Australian Charities Fund and Patron of The Neurosurgical Research Foundation.

**Name:** Lindsay Philip Maxsted, DipBus (Gordon), FCA

**Non-executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes, Chairman

**Independent Director:** Yes

**External Directorships:** Chairman of VicRacing Pty Limited, Director of Transurban Group, Managing Director of Align Capital Pty Limited and Director of Baker Heart Research Institute.

**Name:** Peter David Wilson, CA

**Non-executive:** Yes

**Country of Residence:** New Zealand

**Primary Occupation:** Director

**Secondary Occupations:** None

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Chairman of each of Westpac New Zealand Limited, Global Equity Market Securities Limited and Kermadec Property Fund Limited. Director of each of The Colonial Motor Company Limited, Hill Country Corporation Limited. Member of the New Zealand Exchange Limited Discipline Body and Chairman of NZX Discipline Special Division.

Since publication of the NZ Branch's last General Disclosure Statement there has been a change to the composition of the Board. Lindsay Philip Maxsted was appointed as a Director with effect from 1 March 2008.

## Chief Executive Officer, NZ Branch

**Name:** David McLean, LLB (Hons.)

**Country of Residence:** New Zealand

**Primary Occupation:** Chief Executive Officer, NZ Branch

**Secondary Occupations:** None

**External Directorships:** Diversified Security Investments LLC

## Responsible person

Bradley (Brad) Cooper, Chief Executive Officer Westpac New Zealand Limited, has been authorised in writing by each Director named on pages 2 and 3, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this General Disclosure Statement on the Directors' behalf. Accordingly Brad Cooper is a Responsible Person under the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 2008. The following disclosures are made in relation to Brad Cooper in his capacity as a Responsible Person:

**Name:** Brad Cooper, Dip. BM, MBA, FAIM

**Country of Residence:** New Zealand

**Primary Occupation:** Chief Executive Officer, Westpac New Zealand Limited

**Secondary Occupations:** None

**External Directorships:** Chairman of Trustees, Sir Peter Blake Trust

## Address for communications

All communications may be sent to the Directors, Chief Executive Officer, NZ Branch and the Responsible Person at the head office of the NZ Branch at Level 15, 188 Quay Street, Auckland, New Zealand.

## Conflicts of interest policy

The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Overseas Bank and their own interests are avoided or dealt with. Accordingly, each Director must:

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

## Interested transactions

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

- (a) on terms other than on those that would in the ordinary course of business of the NZ Branch or any member of the NZ Banking Group, be given to any other person of like circumstances and means; or
- (b) which could be reasonably likely to influence materially the exercise of the Directors', or the Chief Executive Officer, NZ Branch, duties.

## Solicitors

### **Simpson Grierson**

HSBC Tower

195 Lambton Quay

Wellington, New Zealand

## Auditors

### **Overseas Banking Group**

PricewaterhouseCoopers

201 Sussex Street

Sydney, NSW 1171

Australia

### **New Zealand Banking Group**

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

## 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 has been no change to the credit rating issued by Fitch Ratings in the two years preceding 31 March 2008. On 4 May 2007, Moody's Investors Service raised its long term credit rating to 'Aa1' from 'Aa3'. On 22 February 2007, Standard & Poor's raised its long term credit rating to 'AA' from 'AA-'.

These credit ratings are given without any qualifications:

Rating Agency	Current Credit Rating
Fitch Ratings	AA-
Moody's Investors Service	Aa1
Standard & Poor's	AA

### Descriptions of credit rating scales

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
<b>The following grades display investment grade characteristics:</b>			
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.	<b>AA</b>	<b>Aa</b>	<b>AA</b>
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

<b>The following grades have predominantly speculative characteristics:</b>			
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	Ca to C	CC to C
Obligations currently in default.	C	-	D

Credit ratings by Fitch Ratings and Standard & Poor's 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 Branch's most recent General Disclosure Statement and copies 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 Branch'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 Branch 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](http://www.westpac.com.au).

## Supplemental disclosure statement

The Banking Group has not published a supplemental disclosure statement as the information required to be disclosed is either not applicable to the NZ Banking Group or is already contained in this General Disclosure Statement.

## Historical summary of financial statements

	NZ Banking Group						
	Six Months Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	31 March 2008	30 September 2007	30 September 2006	30 September 2005	30 September 2005	30 September 2004	30 September 2003
Unaudited NZ IFRS <sup>1</sup>	Audited NZ IFRS	Audited NZ IFRS	Audited NZ IFRS <sup>2</sup>	Audited NZ IFRS <sup>3,7</sup>	Audited NZ IFRS <sup>4,7</sup>	Audited NZ IFRS <sup>5,6,7</sup>	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Income statement</b>							
Interest income	2,633	4,603	3,793	3,081	2,986	2,596	2,368
Interest expense	(1,984)	(3,359)	(2,625)	(2,019)	(1,892)	(1,499)	(1,335)
<b>Net interest income</b>	<b>649</b>	1,244	1,168	1,062	1,094	1,097	1,033
Non-interest income	308	528	524	545	593	591	538
<b>Net operating income</b>	<b>957</b>	1,772	1,692	1,607	1,687	1,688	1,571
Operating expenses	(390)	(736)	(699)	(680)	(726)	(731)	(699)
Impairment charges on loans	(64)	(91)	(31)	(44)	(44)	(39)	(205)
<b>Profit before income tax expense</b>	<b>503</b>	945	962	883	917	918	667
Income tax expense	(150)	(295)	(319)	(216)	(292)	(297)	(203)
<b>Profit after income tax expense</b>	<b>353</b>	650	643	667	625	621	464
Profit attributable to minority interests in subsidiary companies	(1)	(4)	(4)	(5)	(14)	(4)	(2)
<b>Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group</b>							
	<b>352</b>	646	639	662	611	617	462
Remittance to the Overseas Bank	(602)	(137)	(322)	(333)	(333)	(350)	-
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	-	-	-	-	-	(27)
Dividends paid or provided for on ordinary share capital	(70)	(31)	(150)	-	-	-	(180)
Dividends paid or provided for on preference share capital	(15)	-	-	-	-	-	-
Dividends paid or provided for on convertible debentures (net of tax)	(29)	(69)	(67)	(107)	(107)	(138)	(64)
Dividends paid or provided for on NZ Class shares	-	-	-	(54)	(54)	(50)	(44)
<b>Profit (repatriated)/retained</b>	<b>(364)</b>	409	100	168	117	79	147
<b>Balance sheet</b>							
Total assets	64,886	64,707	52,136	45,336	45,050	42,491	39,945
Total impaired assets	138	118	66	80	80	58	71
Total liabilities	60,818	60,847	48,719	41,370	41,072	38,064	34,920
Total head office account	130	1,361	1,307	1,090			
Total head office account and equity	4,068	3,860	3,417	3,966	3,978	4,427	5,025

The amounts for the years ended 30 September have been extracted from the audited financial statements of the NZ Banking Group.

Certain comparative figures have been restated to ensure consistent treatment with the current reporting period.

- <sup>1</sup> During the six months ended 31 March 2008, the NZ Branch repatriated \$1.3 billion to the Overseas Bank from NZ Branch capital (\$698 million) and retained profits (\$602 million).
- <sup>2</sup> The NZ Banking Group adopted New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') with effect from 1st October 2005. NZ IFRS data for the year ended 30 September 2005 excludes adjustments arising from financial instruments in NZ IAS 32: *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by the transitional rules and an election was made to exclude these adjustments in the transition year. The primary adjustments relate to superannuation, cessation of goodwill amortisation and consolidation of special purpose vehicles.
- <sup>3</sup> During the year ended 30 September 2005: (a) the NZ Banking Group redeemed all of the NZ Class shares on issue for \$618 million; (b) the NZ Banking Group disposed of several subsidiaries which reduced the NZ Banking Group's outside minority interest by \$659 million; and (c) the NZ Branch received \$698 million of branch capital from the Overseas Banking Group.
- <sup>4</sup> During the year ended 30 September 2004, the NZ Branch redeemed \$586 million of convertible debentures (net of issue costs) issued to the Chase Manhattan Bank as trustee of the Funding Trust.
- <sup>5</sup> During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect of the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of \$178 million relating to its credit exposures.
- <sup>6</sup> During the year ended 30 September 2003: (a) the NZ Branch issued \$1,994 million of convertible debentures (net of issue costs), \$715 million of which were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and \$1,279 million to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust III; (b) the NZ Branch redeemed \$600 million of branch capital; and (c) the NZ Branch redeemed \$900 million of subordinated capital instruments issued to Westpac Overseas Funding Pty Limited.
- <sup>7</sup> These numbers have not been prepared under NZ IFRS. The primary adjustments are referred to in footnote 3 above.

## Guarantee arrangements

No material obligations of the Overseas Bank are guaranteed.

## Ranking of local creditors in liquidation

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 liquidation 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.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Branch 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 liquidation 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 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 Branch which as at 31 March 2008 amounted to \$4,227 million (31 March 2007: \$5,137 million, 30 September 2007: \$5,017 million).

Section 13A(4) of the Banking Act 1959 (Australia) provides 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. During the six months ended 31 March 2008, the Overseas Bank has at all times 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.

## Pending proceedings or arbitration

With the exception of the proceedings mentioned below, there are no legal proceedings pending at the date of this General Disclosure Statement that may have a material adverse effect on the NZ Banking Group or the NZ Branch.

The New Zealand Commerce Commission has issued proceedings against the NZ Branch, Westpac New Zealand Limited and The Warehouse Financial Services Limited, among others, in relation to interchange rates and rules. In addition, a number of New Zealand retailers have issued similar proceedings. Proceedings have also been filed by the NZ Branch and members of the NZ Banking Group against the New Zealand Inland Revenue Department ('NZIRD') in which the NZ Branch and those NZ Banking Group members are disputing the amended tax assessments received for the 1999, 2000, 2001 and 2002 tax years from the NZIRD in relation to its investigation of certain structured finance transactions. Proceedings disputing the amended assessments with respect to the 1999, 2000, 2001 and 2002 tax years have been commenced and proceedings disputing the 2003, 2004 and 2005 tax years' amended assessments will be commenced shortly.

A description of these proceedings and other contingent liabilities of the NZ Banking Group and the NZ Branch is set out in Note 32 to the financial statements included in this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2007 Annual Financial Report and the 31 March 2007 Interim Financial Report.



## Westpac in New Zealand

Until 1 November 2006, the Overseas Bank operated as a branch in New Zealand. On and from 1 November 2006 the Overseas Bank has operated in New Zealand through both the NZ Branch (a branch of the Overseas Bank carrying on wholesale banking and financial markets business) and Westpac New Zealand Limited (**Westpac New Zealand**) (a locally incorporated subsidiary of the Overseas Bank carrying on the Overseas Bank's New Zealand consumer and business banking operations). Westpac New Zealand is a member of the NZ Banking Group. See Note 50 for further information.

As a registered bank, Westpac New Zealand is required to produce its own General Disclosure Statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand Limited's General Disclosure Statement for the six months ended 31 March 2008.

## Conditions of registration

The conditions of registration imposed on the NZ Branch, which applied from 26 November 2007, are as follows:

1. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
2. That the 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 disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
  - (ii) In measuring the size of the 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 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 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 registered bank does not constitute a predominant proportion of the business of Westpac Banking Corporation.
4. That no appointment to the position of the New Zealand chief executive officer of the registered 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 Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
  - Tier One Capital of Westpac Banking Corporation is not less than 4 percent of risk weighted exposures;
  - capital of Westpac Banking Corporation is not less than 8 percent of risk weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ\$15 billion.
8. That the retail deposits of the registered bank in New Zealand do not exceed \$200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds \$250,000.

For the purposes of these conditions of registration, the term "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.

Further information on the capital adequacy of the Overseas Bank is contained in Note 38 to the financial statements.

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

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

- a. the Disclosure Statement contains all information that is required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008; and
- b. the Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the six months ended 31 March 2008:

- a. the NZ Branch had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and those systems were being properly applied; and
- b. the NZ Branch has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989.

This Directors' Statement has been signed on behalf of the Directors by Brad Cooper, Chief Executive Officer, Westpac New Zealand Limited and David McLean has signed in his personal capacity as Chief Executive Officer, NZ Branch.



Brad Cooper



David McLean

Dated this the 1<sup>st</sup> day of May 2008.

# Financial statements

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## Income statements for the six months ended 31 March 2008

	Note	NZ Banking Group			NZ Branch		
		Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
Interest income	2	2,633	2,141	4,603	682	1,013	1,626
Interest expense	2	(1,984)	(1,523)	(3,359)	(565)	(767)	(1,267)
<b>Net interest income</b>		<b>649</b>	618	1,244	<b>117</b>	246	359
Non-interest income:							
Fees and commissions	3	180	186	359	18	43	56
Wealth management revenue	3	38	37	74	-	-	-
Trading income	3	38	22	75	38	22	75
Gain/(loss) on ineffective hedges	3	3	(3)	5	-	4	4
Share of net profits of associate	3	48	-	-	-	-	-
Other non-interest income	3	1	(1)	15	-	3	9
<b>Total non-interest income</b>		<b>308</b>	241	528	<b>56</b>	72	144
<b>Net operating income</b>		<b>957</b>	859	1,772	<b>173</b>	318	503
Operating expenses	4	(390)	(360)	(736)	(28)	(109)	(160)
Impairment charges on loans	6	(64)	(50)	(91)	(3)	(6)	(7)
<b>Profit before income tax expense</b>		<b>503</b>	449	945	<b>142</b>	203	336
Income tax expense	7	(150)	(140)	(295)	(44)	(63)	(63)
<b>Profit after income tax expense</b>		<b>353</b>	309	650	<b>98</b>	140	273
Profit attributable to minority interests		(1)	(2)	(4)	-	-	-
<b>Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group</b>		<b>352</b>	307	646	<b>98</b>	140	273

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.

## Statements of changes in equity for the six months ended 31 March 2008

	Head Office Account		NZ Banking Group Equity					Minority Interests \$m	Total \$m
	Branch Capital	Retained Profits	Share Capital	Retained Profits	Cash Flow Hedge Reserve	Available-for-sale	Convertible Debentures		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
<b>Opening balance as at 1 October 2006</b>	711	596	133	668	19	-	1,284	6	3,417
<b>Six months ended 31 March 2007</b>									
Net gains from changes in fair value of cash flow hedges	-	-	-	-	50	-	-	-	50
Income tax effect	-	-	-	-	(15)	-	-	-	(15)
Transferred to income statements	-	-	-	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-	-	-	-
Profit after income tax expense	-	140	-	167	-	-	-	2	309
<b>Total recognised income and expenses for the six months ended 31 March 2007</b>	-	140	-	167	35	-	-	2	344
Dividends paid or provided for on convertible debentures (net of tax)	-	(33)	-	-	-	-	-	-	(33)
Share-based payments <sup>1</sup>	-	-	-	-	-	-	-	-	-
Remittances to the Overseas Bank	-	-	-	-	-	-	-	-	-
<b>As at 31 March 2007 (unaudited)</b>	711	703	133	835	54	-	1,284	8	3,728
<b>Year ended 30 September 2007</b>									
Net gains from changes in available-for-sale investments (net of tax)	-	-	-	-	-	1	-	-	1
Net gains from changes in fair value of cash flow hedges	-	-	-	-	64	-	-	-	64
Income tax effect	-	-	-	-	(21)	-	-	-	(21)
Transferred to income statements	-	-	-	-	-	(1)	-	-	(1)
Income tax effect	-	-	-	-	-	-	-	-	-
Profit after income tax expense	-	273	-	373	-	-	-	4	650
<b>Total recognised income and expenses for the year ended 30 September 2007</b>	-	273	-	373	43	-	-	4	693
Dividends:									
Dividends paid or provided for on convertible debentures (net of tax)	-	(69)	-	-	-	-	-	-	(69)
Dividends paid or provided for on ordinary shares	-	-	-	(31)	-	-	-	-	(31)
Share-based payments <sup>1</sup>	(13)	-	-	-	-	-	-	-	(13)
Remittance to the Overseas Bank	-	(137)	-	-	-	-	-	-	(137)
<b>As at 30 September 2007 (audited)</b>	698	663	133	1,010	62	-	1,284	10	3,860
<b>Six months ended 31 March 2008</b>									
Net gains from changes in available-for-sale investments (net of tax)	-	-	-	-	-	11	-	-	11
Net losses from changes in fair value of cash flow hedges	-	-	-	-	(53)	-	-	-	(53)
Income tax effect	-	-	-	-	14	-	-	-	14
Transferred to income statements	-	-	-	-	4	-	-	-	4
Income tax effect	-	-	-	-	(1)	-	-	-	(1)
Profit after income tax expense	-	98	-	254	-	-	-	1	353
<b>Total recognised income and expenses for the six months ended 31 March 2008</b>	-	98	-	254	(36)	11	-	1	328
Share capital issued	-	-	1,300	-	-	-	-	-	1,300
Dividends:									
Dividends paid or provided for on convertible debentures (net of tax)	-	(29)	-	-	-	-	-	-	(29)
Dividends paid or provided for on ordinary shares	-	-	-	(70)	-	-	-	-	(70)
Dividends paid or provided for on preference shares	-	-	-	(15)	-	-	-	-	(15)
Remittance to the Overseas Bank <sup>2</sup>	(698)	(602)	-	-	-	-	-	-	(1,300)
Other minority interests	-	-	-	-	-	-	-	(6)	(6)
<b>As at 31 March 2008 (unaudited)</b>	-	130	1,433	1,179	26	11	1,284	5	4,068

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.

<sup>1</sup> Branch capital relating to share-based payments has been reclassified to due to related entities.

<sup>2</sup> During the six months ended 31 March 2008, the NZ Branch repatriated \$1.3 billion to the Overseas Bank from NZ Branch capital (\$698 million) and retained profits (\$602 million).

## Statements of changes in equity (continued) for the six months ended 31 March 2008

	Head Office Account		NZ Branch		Total \$m
	Branch Capital \$m	Retained Profits \$m	Cash Flow Hedge Reserve \$m	Convertible Debentures \$m	
<b>Opening balance as at 1 October 2006</b>	711	596	19	1,284	2,610
<b>Six months ended 31 March 2007</b>					
Net gains/(losses) from changes in available-for-sale investments (net of tax)	-	-	-	-	-
Net losses from changes in fair value of cash flow hedges	-	-	(27)	-	(27)
Income tax effect	-	-	8	-	8
Transferred to income statements	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	-	140	-	-	140
<b>Total recognised income and expenses for the six months ended 31 March 2007</b>	-	140	(19)	-	121
Dividends paid or provided for on convertible debentures (net of tax)	-	(33)	-	-	(33)
Remittances to the Overseas Bank	-	-	-	-	-
Other minority interests	-	-	-	-	-
<b>As at 31 March 2007 (unaudited)</b>	711	703	-	1,284	2,698
<b>Year ended 30 September 2007</b>					
Net gains/(losses) from changes in available-for-sale investments (net of tax)	-	-	-	-	-
Net losses from changes in fair value of cash flow hedges	-	-	(27)	-	(27)
Income tax effect	-	-	8	-	8
Transferred to income statements	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	-	273	-	-	273
<b>Total recognised income and expenses for the year ended 30 September 2007</b>	-	273	(19)	-	254
Dividends paid or provided for on convertible debentures (net of tax)	-	(69)	-	-	(69)
Share-based payments <sup>1</sup>	(13)	-	-	-	(13)
Remittances to the Overseas Bank	-	(137)	-	-	(137)
<b>As at 30 September 2007 (audited)</b>	698	663	-	1,284	2,645
<b>Six months ended 31 March 2008</b>					
Net gains/(losses) from changes in available-for-sale investments (net of tax)	-	-	-	-	-
Net gains/(losses) from changes in fair value of cash flow hedges	-	-	-	-	-
Income tax effect	-	-	-	-	-
Transferred to income statements	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	-	98	-	-	98
<b>Total recognised income and expenses for the six months ended 31 March 2008</b>	-	98	-	-	98
Dividends paid or provided for on convertible debentures (net of tax)	-	(29)	-	-	(29)
Remittance to the Overseas Bank <sup>2</sup>	(698)	(602)	-	-	(1,300)
<b>As at 31 March 2008 (unaudited)</b>	-	130	-	1,284	1,414

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.

<sup>1</sup> Branch capital relating to share-based payments has been reclassified to due to related entities.

<sup>2</sup> During the six months ended 31 March 2008, the NZ Branch repatriated \$1.3 billion to the Overseas Bank from NZ Branch capital (\$698 million) and retained profits (\$602 million).

## Balance sheets as at 31 March 2008

	Note	NZ Banking Group			NZ Branch		
		31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Assets</b>							
Cash and balances with central banks		1,016	485	1,387	877	418	1,283
Due from other financial institutions	9	487	1,649	591	-	1,077	57
Derivative financial instruments	29	2,573	1,891	2,945	2,573	1,891	2,945
Other trading securities	10	2,490	2,060	3,908	1,134	1,059	1,525
Other financial assets designated at fair value	10	-	1,550	-	-	-	-
Available-for-sale securities	11	39	466	-	-	-	-
Loans	12, 13	53,275	46,824	50,357	8,263	6,603	7,583
Life insurance assets		97	81	81	-	-	-
Due from related entities	28	3,234	2,426	3,722	7,584	7,476	7,902
Investment in associate	28	48	-	-	-	-	-
Goodwill and other intangible assets	14	645	676	673	-	-	-
Property, plant and equipment	15	82	95	89	-	-	-
Income tax receivable		38	-	47	9	-	-
Deferred tax assets	16	98	82	92	4	9	3
Other assets	17	764	651	815	520	383	603
<b>Total assets</b>		<b>64,886</b>	<b>58,936</b>	<b>64,707</b>	<b>20,964</b>	<b>18,916</b>	<b>21,901</b>
<i>Less:</i>							
<b>Liabilities</b>							
Due to other financial institutions	18	416	3,316	870	416	1,309	863
Deposits at fair value	19	4,284	3,546	3,555	-	-	20
Deposits at amortised cost	19	31,450	28,343	30,010	3,811	3,828	4,134
Derivative financial instruments	29	2,927	2,111	3,309	2,927	2,111	3,309
Other trading liabilities at fair value	20	291	158	114	291	158	114
Debt issues	21	11,384	9,747	12,428	-	-	-
Current tax liabilities		-	3	-	-	33	4
Deferred tax liabilities	22	-	-	11	-	-	-
Provisions	23	60	54	68	9	11	13
Other liabilities	24	709	585	707	115	137	89
<b>Total liabilities excluding subordinated debentures and due to related entities</b>		<b>51,521</b>	<b>47,863</b>	<b>51,072</b>	<b>7,569</b>	<b>7,587</b>	<b>8,546</b>
Subordinated debentures	25	688	1,427	1,390	688	1,427	1,390
<b>Total liabilities excluding due to related entities</b>		<b>52,209</b>	<b>49,290</b>	<b>52,462</b>	<b>8,257</b>	<b>9,014</b>	<b>9,936</b>
Due to related entities	28	8,609	5,918	8,385	11,293	7,204	9,320
<b>Total liabilities excluding head office account</b>		<b>60,818</b>	<b>55,208</b>	<b>60,847</b>	<b>19,550</b>	<b>16,218</b>	<b>19,256</b>
<b>Net assets excluding head office account</b>		<b>4,068</b>	<b>3,728</b>	<b>3,860</b>	<b>1,414</b>	<b>2,698</b>	<b>2,645</b>
<i>Represented by:</i>							
<b>Head office account</b>							
Branch capital		-	711	698	-	711	698
Retained profits		130	703	663	130	703	663
<b>Total head office account</b>		<b>130</b>	<b>1,414</b>	<b>1,361</b>	<b>130</b>	<b>1,414</b>	<b>1,361</b>
<b>NZ Banking Group equity</b>							
Ordinary share capital		133	133	133	-	-	-
Preference share capital		1,300	-	-	-	-	-
Retained profits		1,179	835	1,010	-	-	-
Available-for-sale securities revaluation reserve		11	-	-	-	-	-
Cash flow hedge reserve		26	54	62	-	-	-
Convertible debentures	27	1,284	1,284	1,284	1,284	1,284	1,284
<b>Total NZ Banking Group equity</b>		<b>3,933</b>	<b>2,306</b>	<b>2,489</b>	<b>1,284</b>	<b>1,284</b>	<b>1,284</b>
Minority interests		5	8	10	-	-	-
<b>Total head office account and equity</b>		<b>4,068</b>	<b>3,728</b>	<b>3,860</b>	<b>1,414</b>	<b>2,698</b>	<b>2,645</b>

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.

## Statements of cash flows for the six months ended 31 March 2008

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Cash flows from operating activities</b>						
Interest received	2,629	2,118	4,539	675	999	1,601
Interest paid	(2,033)	(1,486)	(3,185)	(568)	(771)	(1,265)
Other non-interest income received	260	235	526	56	66	138
Net disposal/(acquisition) of other trading securities	1,474	585	(1,256)	448	1,585	1,126
Net acquisition/(disposal) of other trading liabilities	126	(38)	(35)	126	(38)	(35)
Net (acquisition)/disposal of derivative financial instruments	(62)	66	225	(10)	(7)	145
Operating expenses paid	(331)	(287)	(694)	(24)	(35)	(187)
Income tax paid	(112)	(146)	(335)	-	(39)	(40)
<b>Net cash flows from operating activities</b>	<b>1,951</b>	<b>1,047</b>	<b>(215)</b>	<b>703</b>	<b>1,760</b>	<b>1,483</b>
<b>Cash flows from investing activities</b>						
Net increase in due from other financial institutions – term	46	182	(224)	-	(92)	-
Net disposal of other financial assets designated at fair value	-	-	1,550	-	-	-
Net disposal of available-for-sale securities	20	6	472	-	-	-
Net loans advanced to customers	(2,982)	(5,083)	(8,657)	(683)	(1,929)	(2,910)
Net acquisition of life insurance assets	(16)	(8)	(6)	-	-	-
Net decrease/(increase) in due from related entities	440	(937)	(2,236)	318	(5,095)	(5,524)
Net (increase)/decrease in other assets	(1)	(65)	(195)	34	55	(161)
Purchase of capitalised computer software	(14)	(18)	(35)	-	(2)	-
Purchase of property, plant and equipment	(6)	(12)	(21)	-	(4)	(1)
Proceeds from disposal of property, plant and equipment	-	2	-	-	-	-
Proceeds from disposal of computer software	-	-	-	-	-	(3)
<b>Net cash used in investing activities</b>	<b>(2,513)</b>	<b>(5,933)</b>	<b>(9,352)</b>	<b>(331)</b>	<b>(7,067)</b>	<b>(8,599)</b>
<b>Cash flows from financing activities</b>						
Issue of ordinary share capital	-	-	-	-	-	-
Redemption of FIRsTS	(730)	-	-	(730)	-	-
Issue of preference share capital	1,300	-	-	-	-	-
Branch capital received	-	-	-	-	-	-
Net (decrease)/increase in due to other financial institutions – term	(7)	7	(1,993)	-	-	-
Net increase in deposits	2,167	1,526	3,202	(343)	979	1,305
Net (redemptions)/proceeds from debt issues	(1,044)	2,536	5,217	-	-	-
Net increase in due to related entities	211	1,800	4,225	1,942	4,831	6,936
Net increase/(decrease) in other liabilities	103	(41)	(72)	87	(40)	(93)
Payment of dividends on convertible debentures	(29)	(49)	(98)	(29)	(49)	(98)
Payment of dividends on ordinary shares	(76)	-	-	-	-	-
Payment of dividends on preference shares	(15)	-	-	(15)	-	-
Remittance to the Overseas Bank	(1,300)	-	(137)	(1,300)	-	(137)
<b>Net cash provided by financing activities</b>	<b>580</b>	<b>5,779</b>	<b>10,344</b>	<b>(388)</b>	<b>5,721</b>	<b>7,913</b>

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.



## Statements of cash flows (continued) for the six months ended 31 March 2008

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>18</b>	893	777	<b>(16)</b>	414	797
Cash and cash equivalents at beginning of the period/year	<b>582</b>	(195)	(195)	<b>477</b>	(197)	(197)
Cash vested in Westpac New Zealand Limited	-	-	-	-	(123)	(123)
<b>Cash and cash equivalents at end of the period/year</b>	<b>600</b>	698	582	<b>461</b>	94	477
<b>Cash and cash equivalents comprise</b>						
Cash and balances with central banks	<b>1,016</b>	485	1,387	<b>877</b>	418	1,283
Due (to)/from other financial institutions – at call	<b>(416)</b>	213	(805)	<b>(416)</b>	(324)	(806)
<b>Cash and cash equivalents at end of the period/year</b>	<b>600</b>	698	582	<b>461</b>	94	477
<b>Reconciliation of profit after income tax expense to net cash flows from operating activities</b>						
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	<b>352</b>	307	646	<b>98</b>	140	273
<i>Adjustments:</i>						
Amortisation of intangible assets	<b>22</b>	18	38	-	2	3
Impairment on goodwill	<b>20</b>	-	-	-	-	-
Impairment losses on loans	<b>64</b>	50	91	<b>3</b>	6	7
Depreciation/amortisation	<b>13</b>	13	27	<b>1</b>	4	1
Gain/(loss) on sale of property, plant and equipment	-	(1)	1	-	-	-
Share of net profits of associate	<b>(48)</b>	-	-	-	-	-
Share-based payments	-	3	3	-	-	-
Minority interests in subsidiary companies	<b>1</b>	2	4	-	-	-
Movement in accrued assets	<b>(5)</b>	(18)	(53)	<b>(8)</b>	(13)	(24)
Movement in accrued liabilities	<b>(30)</b>	67	140	<b>13</b>	57	(36)
Movement in income tax provisions	<b>(8)</b>	(8)	(57)	<b>17</b>	-	(9)
Tax on convertible debentures dividends	<b>15</b>	16	32	<b>15</b>	16	32
Net disposal/(acquisition) of other trading securities	<b>1,475</b>	585	(1,256)	<b>448</b>	1,585	1,126
Net acquisition/(disposal) of other trading liabilities	<b>126</b>	(38)	(34)	<b>126</b>	(38)	(35)
Net (disposal)/acquisition of derivative financial instruments	<b>(46)</b>	51	203	<b>(10)</b>	1	145
<b>Net cash flows from operating activities</b>	<b>1,951</b>	1,047	(215)	<b>703</b>	1,760	1,483

The accompanying notes (numbered 1 to 50) form part of, and should be read in conjunction with, these financial statements.

# Notes to the financial statements

## Note 1 Statement of accounting policies

### 1.1 General accounting policies

#### **Statutory base**

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008, 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, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial report comprising the financial statements and accompanying notes of the NZ Banking Group and the NZ Branch complies with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

In these 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 the financial statements of the Overseas Banking Group's New Zealand business.
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

These financial statements were authorised for issue by the Board on 1st day of May 2008.

#### **Basis of preparation**

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

The accounting policies have been consistently applied by the NZ Banking Group for all the financial periods presented in these financial statements.

#### **Basis of aggregation**

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Branch, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited and the consolidated capital and reserves of Westpac New Zealand Group Limited, Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited, Westpac NZ Funding Limited 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 balance date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

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

#### **Financial information for the six months ended 31 March 2007**

As a result of continuing analysis of the NZ Banking Group's hedge accounting, the Overseas Bank identified derivatives in the NZ Branch that were incorrectly being treated by the NZ Branch as fair value or cash flow hedges, when they only qualified for hedge accounting at the NZ Banking Group level. This resulted in an understatement of the NZ Branch's interest income of \$161 million and an understatement of non-interest income of \$4 million. This error resulted in an understatement of profit before income tax of \$165 million and profit after income tax of \$111 million for the six months ended 31 March 2007. Within the balance sheet, retained earnings and loans were understated by \$111 million and \$89 million respectively, cash flow hedge reserve and deferred tax balances overstated by \$54 million and \$22 million respectively.

The error has been corrected by restating each of the affected financial statement line items for the prior period as described above.

## Note 1 Statement of accounting policies (continued)

### 1.2 Particular accounting policies

#### **Revenue recognition**

##### ***Interest income***

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and 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 loan's original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

##### ***Fee and commission income***

Fees and commissions are generally recognised on an accrual basis over the period during which the service is performed. All fees related to the successful origination or settlement of a loan (together with the related direct costs) are deferred and are recognised as an adjustment to the effective interest rate on the loan. 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 those 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 an asset 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, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method. Interest expense relating to instruments classified as fair value through profit or loss, including trading liabilities, is also recognised using the effective interest method.

##### ***Losses on loans and receivables carried at amortised cost***

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

##### ***Leasing***

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

##### ***Commissions and other fees***

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

##### ***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 provided to employees as share-based compensation is recognised as an expense with a corresponding increase in due to related parties. 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 is 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. As at each balance date these assumptions are revised and the expense recognised each period takes into account the most recent estimates.

## Note 1 Statement of accounting policies (continued)

### **Taxation**

#### ***Income tax***

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

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

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

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

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

#### ***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.

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.

#### ***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 selling it in the near term, if it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent pattern of short term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management.

This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

#### ***Available-for-sale***

Available-for-sale financial securities 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.

#### ***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.

#### ***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 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.

## Note 1 Statement of accounting policies (continued)

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

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the 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. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

### **Due from other financial institutions**

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

### **Derivative financial instruments**

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

### **Other trading securities**

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

### **Other financial assets designated at fair value**

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

### **Available-for-sale securities**

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

### **Loans**

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. Refer above for accounting treatment of loans.

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.

Assets that are in arrears based upon their contractual terms, but not yet impaired 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'.

### **Assets carried at amortised cost**

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

## Note 1 Statement of accounting policies (continued)

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective 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 are 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 charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

### ***Assets carried at fair value***

The NZ Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

### ***Investments in related entities including associates***

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.

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

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

## Note 1 Statement of accounting policies (continued)

### **Life insurance assets**

Assets held by the life insurance company, including investments in funds managed by the NZ Banking Group, are initially recorded at fair value and then adjusted to net market value as at each balance date. Net market value adjustments are included in the income statement. The life insurance 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 life insurance company or as distributions when solvency requirements are met, and cannot be used to support any other business of the life insurance company.

### **Goodwill and other intangible assets**

Goodwill represents amounts arising on the acquisition of businesses. 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 of the business acquired.

All goodwill is considered to have an indefinite life.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is carried at cost or deemed cost on transition to NZ IFRS, 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 ('CGUs') are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill was last tested for impairment as at 30 September 2007, except for goodwill allocated to BT Funds Management (NZ) Limited ('BTFG') which was tested for impairment following partial disposal of BT Investment Management Limited in December 2007.

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

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

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

### **Property, plant and equipment**

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

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

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

## **Liabilities**

### **Financial liabilities**

Financial liabilities are measured at amortised cost, except for derivatives and deposits at fair value, which are held at fair value through profit or loss.

### **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.

## Note 1 Statement of accounting policies (continued)

### ***Deposits at fair value***

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

### ***Deposits at amortised cost***

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

### ***Derivative financial instruments***

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

### ***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.

### ***Debt issues***

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

### ***Life insurance policy liabilities***

Life insurance contract liabilities are calculated by using the margin on service methodology. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released over each financial period in line with the service that has been provided. The balance of the planned profit is deferred by including them in the value of policy liabilities.

### ***Subordinated debentures***

These are 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 interest 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 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 date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

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

#### ***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 actuarial gains and losses. The carrying amount of an asset or liability 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 New Zealand 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.



## Note 1 Statement of accounting policies (continued)

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 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 expected to be settled within 12 months are measured at amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the 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**

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.

### **Head office account and equity**

#### **Ordinary shares**

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

#### **Head office account – 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 Branch. 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 fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as other income when the asset is either derecognised or impaired.

#### **Cash flow hedge reserve**

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

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

The 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 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% of these changes. 'Hedge ineffectiveness' represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item.

#### **Fair value hedge**

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

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

## Note 1 Statement of accounting policies (continued)

### **Cash flow hedge**

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

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

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

### **Embedded derivatives**

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

### **Loan securitisation**

The NZ Banking Group, through its loan securitisation programme, may package and sell 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 that do not qualify for derecognition and associated funding are included in loans and debt issues respectively.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where substantially all the risks and rewards of ownership have been transferred.

### **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 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 New Zealand accounting standard ('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 readily convertible at the investor's or customer's option and include the inter-bank balances arising from the daily Reserve Bank of New Zealand ('Reserve Bank') settlement process.

#### **Netting of cash flows**

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where substantially all the risks and rewards of ownership have been transferred.

## Note 1 Statement of accounting policies (continued)

### 1.3 Future accounting developments

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

- NZ IFRS 8 *Operating Segments* was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and will apply to the NZ Banking Group from 1 October 2009. NZ IFRS 8 will impact the financial and descriptive information about reportable segments, but will not impact the NZ Banking Group's reported results or financial position.
- NZ IFRIC 13 *Customer Loyalty Programmes* is effective for the 30 September 2009 financial year end. NZ IFRIC 13 addresses how companies that grant their customers loyalty award credits when buying goods and services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the points. NZ IFRIC 13 requires the entity to allocate some of the proceeds of the initial sale to award credits and recognise these proceeds as revenue when the provision of free goods or services is fulfilled. The guidance will result in the remeasurement and reclassification of the existing credit card loyalty provision to deferred income. Deferred income will be recognised as revenue when the expense of providing rewards is incurred. It is expected that there will be some further delay in the timing of the recognition of revenue attributed to the credit card loyalty programme going forward. This guidance is not expected to have a material impact to the NZ Banking Group.
- A revised NZ IFRS 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* were issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants in February 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards are that:
  - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
  - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however remeasurement in the future will be recognised in the income statement;
  - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
  - while control is retained, transactions with minority interests would be treated as equity transactions.

### 1.4 Critical accounting assumptions and estimates

#### Critical accounting estimates

The application of the NZ Banking Group's accounting policies necessarily requires the use of judgement, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the NZ Banking Group. Management has discussed the accounting policies which are sensitive to the use of judgement, estimates and assumptions with the Board Audit Committee of the Overseas Bank.

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

#### **Fair value of financial instruments**

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

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

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

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

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

The fair value of financial instruments is provided in Note 31.

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

## Note 1 Statement of accounting policies (continued)

### **Provisions for impairment on loans**

The NZ Banking Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected future cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's effective interest rate. Provisions for loan impairment losses represent management's estimate of the losses incurred in the loan portfolios as at balance date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the consolidated income statement as part of the impairment charges on loans.

As at 31 March 2008, the NZ Banking Group's gross loans and advances to customers totalled \$53,519 million (31 March 2007: \$47,015 million, 30 September 2007: \$50,571 million) and the provision for loan impairment losses was \$244 million (31 March 2007: \$191 million, 30 September 2007: \$214 million). There are two components to the NZ Banking Group's loan impairment provisions, individual and collective as follows:

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

The impairment charge reflected in the income statement of the NZ Banking Group for the six months ended 31 March 2008 was \$64 million (31 March 2007: \$50 million, 30 September 2007: \$91 million) and the provision balance as at 31 March 2008 of \$244 million (31 March 2007: \$191 million, 30 September 2007: \$214 million) represents 0.46% (31 March 2007: 0.41%, 30 September 2007: 0.42%) of loans.

### **Goodwill**

Goodwill represents the excess of purchase consideration, including incidental expenses, over the fair value of the NZ Banking Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually. The carrying value of goodwill as at 31 March 2008 was \$527 million (31 March 2007: \$547 million, 30 September 2007: \$547 million).

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

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

Goodwill impairment testing for the current reporting period resulted in goodwill allocated to BTFG being impaired by \$20 million.

### **Superannuation obligations**

The NZ Banking Group operates a defined benefit plan as described in Note 34. For this plan, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed annually in accordance with the requirements of NZ IAS 19: *Employee Benefits*.

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

The NZ Banking Group's NZ IAS 19 superannuation deficit as at 31 March 2008 was \$23 million (31 March 2007: \$15 million, 30 September 2007: \$11 million). This comprised net recognised liabilities of \$24 million (31 March 2007: \$28 million, 30 September 2007: \$24 million) and unrecognised actuarial gains of \$1 million (31 March 2007: \$13 million, 30 September 2007: \$13 million).

### **Provisions (other than loan impairment losses)**

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

# Notes to the financial statements

## Note 2 Net interest income

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Interest income</b>						
Loans	2,399	1,908	4,096	352	548	821
Deposits with other financial institutions	59	50	113	53	48	111
Available-for-sale securities	-	17	26	-	-	-
Impaired assets	4	8	8	-	4	-
Related entities	-	-	-	180	321	544
Other	40	31	63	41	31	62
<b>Total interest income recognised using the effective interest method</b>	<b>2,502</b>	<b>2,014</b>	<b>4,306</b>	<b>626</b>	<b>952</b>	<b>1,538</b>
Other trading securities	131	68	207	56	61	88
Other financial assets designated at fair value	-	59	90	-	-	-
<b>Total interest income</b>	<b>2,633</b>	<b>2,141</b>	<b>4,603</b>	<b>682</b>	<b>1,013</b>	<b>1,626</b>
<b>Interest expense</b>						
Current and term deposits	1,224	942	2,020	153	276	415
Deposits from other financial institutions	17	95	159	17	28	58
Debt issues	315	243	581	-	-	-
Related entities	208	116	344	304	337	552
Subordinated debentures	33	52	103	33	52	103
Other	30	38	85	23	37	77
<b>Total interest expense recognised using the effective interest method</b>	<b>1,827</b>	<b>1,486</b>	<b>3,292</b>	<b>530</b>	<b>730</b>	<b>1,205</b>
Other trading liabilities at fair value	157	37	67	35	37	62
<b>Total interest expense</b>	<b>1,984</b>	<b>1,523</b>	<b>3,359</b>	<b>565</b>	<b>767</b>	<b>1,267</b>
<b>Net interest income</b>	<b>649</b>	<b>618</b>	<b>1,244</b>	<b>117</b>	<b>246</b>	<b>359</b>

The NZ Banking Group has no loans and deposits that were subject to set-off agreements.

## Note 3 Non-interest income

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Fees and commissions</b>						
Lending fees (loan and risk)	48	47	92	3	11	14
Transaction fees and commissions received	128	133	258	12	29	36
Management fees received from related entities	-	1	1	-	-	-
Other non-risk fee income	4	5	8	3	3	6
<b>Total fees and commissions</b>	<b>180</b>	<b>186</b>	<b>359</b>	<b>18</b>	<b>43</b>	<b>56</b>
<b>Wealth management operating income</b>						
Fees from trust and other fiduciary activities	51	51	104	-	-	-
Net life insurance income and change in policy liabilities	(13)	(14)	(30)	-	-	-
<b>Total wealth management operating income</b>	<b>38</b>	<b>37</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Trading income</b>						
Foreign exchange	25	22	51	25	22	51
Other trading	13	-	24	13	-	24
<b>Total trading income</b>	<b>38</b>	<b>22</b>	<b>75</b>	<b>38</b>	<b>22</b>	<b>75</b>
<b>Gain/(loss) on ineffective hedges</b>	<b>3</b>	<b>(3)</b>	<b>5</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>Share of net profits of associate</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other non-interest income</b>						
Dividend income	-	-	2	-	-	-
Rental income	-	-	1	-	-	-
Loss on disposal of property, plant and equipment	-	(1)	(1)	-	-	-
General insurance commissions	1	-	5	-	2	2
Other	-	-	8	-	1	7
<b>Total other non-interest income</b>	<b>1</b>	<b>(1)</b>	<b>15</b>	<b>-</b>	<b>3</b>	<b>9</b>
<b>Total non-interest income</b>	<b>308</b>	<b>241</b>	<b>528</b>	<b>56</b>	<b>72</b>	<b>144</b>

## Note 4 Operating expenses

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Salaries and other staff expenses</b>						
Salaries and wages	163	159	315	15	37	52
Employee entitlements	3	2	9	-	-	-
Superannuation costs:						
Defined contribution scheme	11	10	21	1	2	3
Defined benefit scheme (refer to Note 34)	-	-	(4)	-	-	-
Share-based payments	1	3	3	-	-	-
Restructuring costs	2	3	6	-	-	1
Other	6	3	8	-	-	1
<b>Total salaries and other staff expenses</b>	<b>186</b>	<b>180</b>	<b>358</b>	<b>16</b>	<b>39</b>	<b>57</b>
<b>Equipment and occupancy expenses</b>						
Operating lease rentals:						
Related entities	-	-	-	-	6	6
Other	25	23	48	-	1	2
Depreciation:						
Leasehold improvements	5	5	11	-	-	-
Furniture and equipment	8	8	16	-	4	1
Equipment repairs and maintenance	3	3	7	-	-	-
Electricity, water and rates	1	2	3	-	-	-
Other	2	4	7	-	-	-
<b>Total equipment and occupancy expenses</b>	<b>44</b>	<b>45</b>	<b>92</b>	<b>-</b>	<b>11</b>	<b>9</b>
<b>Other expenses</b>						
Impairment charges on goodwill	20	-	-	-	-	-
Software amortisation costs	22	18	38	-	2	3
Non-lending losses	1	2	3	-	-	-
Consultancy fees and other professional services	35	32	57	6	10	16
Auditors' remuneration (refer to Note 5)	1	1	2	-	-	1
Stationery	6	9	16	-	2	2
Postage and freight	8	8	17	-	1	2
Telecommunication costs	-	11	21	-	2	3
Insurance	-	-	-	-	-	-
Advertising	13	12	27	-	3	3
Training	2	1	3	-	-	-
Travel	4	4	9	1	2	2
Outsourcing	40	26	56	1	5	6
Related entities	3	8	29	2	28	53
Other	5	3	8	2	4	3
<b>Total other expenses</b>	<b>160</b>	<b>135</b>	<b>286</b>	<b>12</b>	<b>59</b>	<b>94</b>
<b>Total operating expenses</b>	<b>390</b>	<b>360</b>	<b>736</b>	<b>28</b>	<b>109</b>	<b>160</b>

The NZ Banking Group made donations of \$80,000 during the six months ended 31 March 2008 (31 March 2007: \$70,000, 30 September 2007: \$172,000).

## Note 5 Auditors' remuneration

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$'000	Six Months Ended 31 March 2007 Unaudited \$'000	Year Ended 30 September 2007 Audited \$'000	Six Months Ended 31 March 2008 Unaudited \$'000	Six Months Ended 31 March 2007 Unaudited \$'000	Year Ended 30 September 2007 Audited \$'000
<b>Auditor of the parent entity</b>						
Audit services	625	463	1,372	314	49	718
Other services:						
Further assurance services	138	256	183	138	-	-
Tax services	204	169	247	-	-	97
<b>Total remuneration for audit and non-audit services</b>	<b>967</b>	<b>888</b>	<b>1,802</b>	<b>452</b>	<b>49</b>	<b>815</b>

It is the NZ Banking Group's policy to employ the external auditors on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with the NZ Banking Group is important. As described above, these assignments relate principally to regulatory reporting, taxation services and other assurance services. The amounts disclosed above are GST inclusive.

Note 6 Impairment on loans

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
Collectively assessed provision	27	39	56	4	7	9
Collective write-off	24	13	36	-	-	-
Individually assessed provisions	17	5	15	-	-	-
Individually assessed write-off	5	1	2	-	-	-
Interest adjustments	(9)	(8)	(18)	(1)	(1)	(2)
<b>Total impairment charges on loans</b>	<b>64</b>	<b>50</b>	<b>91</b>	<b>3</b>	<b>6</b>	<b>7</b>

Total impairment charges on loans is analysed by class as follows:

	NZ Banking Group				NZ Branch			
	Six Months Ended 31 March 2008 – Unaudited				Six Months Ended 31 March 2008 – Unaudited			
	Housing \$m	Retail \$m	Corporate \$m	Total \$m	Housing \$m	Retail \$m	Corporate \$m	Total \$m
Collectively assessed provision	6	11	10	27	-	-	4	4
Collective write-off	-	24	-	24	-	-	-	-
Individually assessed provisions	8	-	9	17	-	-	-	-
Individually assessed write-off	-	-	5	5	-	-	-	-
Interest adjustments	(1)	(3)	(5)	(9)	-	-	(1)	(1)
<b>Total impairment charges on loans</b>	<b>13</b>	<b>32</b>	<b>19</b>	<b>64</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>3</b>

	NZ Banking Group				NZ Branch			
	Six Months Ended 31 March 2007 – Unaudited				Six Months Ended 31 March 2007 – Unaudited			
	Housing \$m	Retail \$m	Corporate \$m	Total \$m	Housing \$m	Retail \$m	Corporate \$m	Total \$m
Collectively assessed provision	4	10	26	40	-	-	7	7
Collective write-off	-	13	-	13	-	-	-	-
Individually assessed provisions	2	-	3	5	-	-	-	-
Individually assessed write-off	-	-	1	1	-	-	-	-
Interest adjustments	-	(3)	(6)	(9)	-	-	(1)	(1)
<b>Total impairment charges on loans</b>	<b>6</b>	<b>20</b>	<b>24</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>

	NZ Banking Group				NZ Branch			
	Year Ended 30 September 2007 – Unaudited				Year Ended 30 September 2007 – Unaudited			
	Housing \$m	Retail \$m	Corporate \$m	Total \$m	Housing \$m	Retail \$m	Corporate \$m	Total \$m
Collectively assessed provision	7	9	40	56	-	-	9	9
Collective write-off	-	36	-	36	-	-	-	-
Individually assessed provisions	12	-	3	15	-	-	-	-
Individually assessed write-off	-	-	2	2	-	-	-	-
Interest adjustments	(1)	(7)	(10)	(18)	-	-	(2)	(2)
<b>Total impairment charges on loans</b>	<b>18</b>	<b>38</b>	<b>35</b>	<b>91</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>7</b>

## Note 7 Income tax expense

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
<b>Income tax expense</b>						
Current tax:						
Current period/year	151	152	311	40	69	60
Prior period/year	5	(10)	(11)	4	(14)	(15)
Deferred tax (refer to Notes 16 and 22):						
Current period/year	(5)	(12)	(25)	2	(2)	5
Prior period/year	(4)	10	13	(4)	10	13
Change to corporate tax rate <sup>1</sup>	3	-	7	2	-	-
<b>Total income tax expense</b>	<b>150</b>	<b>140</b>	<b>295</b>	<b>44</b>	<b>63</b>	<b>63</b>
<b>Profit before income tax expense</b>	<b>503</b>	<b>449</b>	<b>945</b>	<b>142</b>	<b>203</b>	<b>336</b>
Tax calculated at tax rate of 33 percent	166	148	312	47	67	111
Non-assessable dividends	(7)	(6)	-	-	-	-
Income not subject to tax	(21)	(4)	(16)	-	-	-
Expenses not deductible for tax purposes	7	2	9	-	-	-
Other items	1	-	(19)	(5)	-	(46)
Change to corporate tax rate <sup>1</sup>	3	-	7	2	-	-
Prior period/year adjustments	1	-	2	-	(4)	(2)
<b>Total income tax expense</b>	<b>150</b>	<b>140</b>	<b>295</b>	<b>44</b>	<b>63</b>	<b>63</b>

<sup>1</sup> In May 2007, the corporate tax rate in New Zealand was changed from 33% to 30% with effect from the 2008/2009 income tax year. This revised income tax rate has not impacted the current tax liability balance for the current income tax period, but will do so in future reporting periods. However, the impact of the change in income tax rate has been taken into account in the measurement of deferred taxes at the end of the current (31 March 2008) and previous reporting period (30 September 2007). The change in tax rate has resulted in a decrease in the net deferred tax asset balance as at 31 March 2008 of \$9 million (30 September 2007: \$7 million). Of the adjustment arising from the change in tax rates, \$9 million was recognised in the income statement (\$2 million for the six months ended 31 March 2008 and \$7 million for the year ended 30 September 2007) while a credit of \$1 million was recognised directly in equity (nil for the six months ended 31 March 2008 and \$1 million for year ended 30 September 2007) as it related to items previously charged to equity. Deferred tax assets and liabilities recognised in the current reporting period will be reflected at the rate expected to be in force when the recognised items reverse.

The balance of the dividend withholding payment account as at 31 March 2008 was nil (31 March 2007: nil, 30 September 2007: nil) and there was no movement during the six months ended 31 March 2008 (31 March 2007: nil, 30 September 2007: nil).

## Note 8 Imputation credit account

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
Balance at beginning of the period/year	842	480	480	265	208	208
Transfers	-	(8)	-	-	(4)	1
Imputation credits attached to dividends received during the period/year	13	56	21	-	-	-
Imputation credits attached to dividends paid during the period/year	(29)	-	(10)	-	-	-
Income tax payments during the period/year	112	146	351	-	40	56
Other receipts during the period/year	(4)	-	-	(16)	-	-
<b>Balance at end of the period/year</b>	<b>934</b>	<b>674</b>	<b>842</b>	<b>249</b>	<b>244</b>	<b>265</b>



Note 9 Due from other financial institutions

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Loans and advances to other banks	487	1,113	591	-	1,077	57
Other	-	536	-	-	-	-
<b>Total due from other financial institutions</b>	<b>487</b>	<b>1,649</b>	<b>591</b>	<b>-</b>	<b>1,077</b>	<b>57</b>
Due from other financial institutions comprises of:						
At call	-	1,522	58	-	985	57
Term	487	127	533	-	92	-
<b>Total due from other financial institutions</b>	<b>487</b>	<b>1,649</b>	<b>591</b>	<b>-</b>	<b>1,077</b>	<b>57</b>

Note 10 Other trading securities and other financial assets designated at fair value

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Other trading assets</b>						
Trading securities	2,350	1,772	3,784	994	771	1,401
Securities purchased under agreement to resell	140	288	124	140	288	124
<b>Total other trading securities</b>	<b>2,490</b>	<b>2,060</b>	<b>3,908</b>	<b>1,134</b>	<b>1,059</b>	<b>1,525</b>
Other financial securities at fair value	-	1,550	-	-	-	-
<b>Total other trading securities and other financial assets designated at fair value</b>	<b>2,490</b>	<b>3,610</b>	<b>3,908</b>	<b>1,134</b>	<b>1,059</b>	<b>1,525</b>
<b>Trading securities</b>						
<b>Listed</b>						
NZ Government securities	255	112	183	255	112	159
NZ corporate securities	16	46	45	16	46	45
Other	47	7	63	47	7	63
<b>Total listed trading securities</b>	<b>318</b>	<b>165</b>	<b>291</b>	<b>318</b>	<b>165</b>	<b>267</b>
<b>Unlisted</b>						
NZ Government securities	1	1	-	1	1	-
NZ corporate securities:						
Certificates of deposit	1,985	1,283	3,391	629	282	1,048
Commercial paper	46	321	102	46	321	86
Mortgage-backed securities	-	2	-	-	2	-
<b>Total unlisted trading securities</b>	<b>2,032</b>	<b>1,607</b>	<b>3,493</b>	<b>676</b>	<b>606</b>	<b>1,134</b>
<b>Total trading securities</b>	<b>2,350</b>	<b>1,772</b>	<b>3,784</b>	<b>994</b>	<b>771</b>	<b>1,401</b>

## Note 11 Available-for-sale securities

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Listed securities</b>						
Overseas public securities	30	-	-	-	-	-
NZ corporate securities	9	466	-	-	-	-
<b>Total available-for-sale securities</b>	<b>39</b>	<b>466</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

As at 31 March 2008, there were no available-for-sale securities (31 March 2007: \$466 million, 30 September 2007: nil) pledged as collateral for the NZ Banking Group's liabilities.

The movement in available-for-sale securities may be summarised as follows:

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Balance at beginning of the period/year	-	472	472	-	-	-
Additions	54	-	53	-	-	-
Disposals (sale and redemption)	(15)	(6)	(526)	-	-	-
Gains and losses from changes in fair value	-	-	1	-	-	-
<b>Balance at end of the period/year</b>	<b>39</b>	<b>466</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Note 12 Loans

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Overdrafts	1,457	1,242	1,401	361	242	334
Credit card outstandings	1,117	1,058	1,062	-	-	-
Money market loans	2,273	1,995	2,085	1,550	1,301	1,408
Term loans:						
Housing	30,511	27,263	29,019	-	-	-
Non-housing	17,168	14,440	16,198	5,597	4,405	5,234
Other	993	1,017	806	772	667	621
<b>Total gross loans</b>	<b>53,519</b>	<b>47,015</b>	<b>50,571</b>	<b>8,280</b>	<b>6,615</b>	<b>7,597</b>
Provisions for impairment charges on loans	(244)	(191)	(214)	(17)	(12)	(14)
<b>Total net loans</b>	<b>53,275</b>	<b>46,824</b>	<b>50,357</b>	<b>8,263</b>	<b>6,603</b>	<b>7,583</b>

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

Note 13 Impaired assets

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m
<b>Individually impaired assets</b>						
Balance at beginning of the period/year	116	64	64	-	64	64
Impaired assets vested during the period/year	-	-	-	-	(64)	(64)
Movement for the period/year	22	1	52	-	-	-
<b>Balance at end of the period/year</b>	<b>138</b>	<b>65</b>	<b>116</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Interest forgone for the period/year on the above impaired assets</b>	-	-	-	-	-	-
<b>Restructured assets</b>						
Balance at beginning of the period/year	2	-	-	-	-	-
Restructured assets vested during the period/year	-	-	-	-	-	-
Movement for the period/year	1	-	2	-	-	-
<b>Balance at end of the period/year</b>	<b>3</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Interest forgone for the period/year on the above restructured assets</b>	-	-	-	-	-	-
<b>Past due assets 1 to 89 days<sup>1</sup></b>						
Balance at beginning of the period/year	3,297	2,644	2,644	-	2,644	2,644
Past due assets vested during the period/year	-	-	-	-	(2,644)	(2,644)
Movement for the period/year	(984)	329	653	-	-	-
<b>Balance at end of the period/year</b>	<b>2,313</b>	<b>2,973</b>	<b>3,297</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Past due assets 90+ days<sup>1</sup></b>						
Balance at beginning of the period/year	156	119	119	-	119	119
Past due assets vested during the period/year	-	-	-	-	(119)	(119)
Movement for the period/year	123	41	37	-	-	-
<b>Balance at end of the period/year</b>	<b>279</b>	<b>160</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Interest forgone for the period/year on the above past due assets</b>	-	-	-	-	-	-
<b>Other assets under administration<sup>1</sup></b>						
Balance at beginning of the period/year	-	-	-	-	-	-
Assets under administration vested during the period/year	-	-	-	-	-	-
Movement for the period/year	-	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Individually assessed provisions</b>						
Balance at beginning of the period/year	26	15	15	-	15	15
Provision vested during the period/year	-	-	-	-	(15)	(15)
Movement for the period/year	4	3	11	-	-	-
<b>Balance at end of the period/year</b>	<b>30</b>	<b>18</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collectively impaired provision</b>						
Balance at beginning of the period/year	213	157	157	19	157	157
Provision vested during the period/year	-	-	-	-	(147)	(147)
Movement for the period/year	27	40	56	4	7	9
<b>Balance at end of the period/year</b>	<b>240</b>	<b>197</b>	<b>213</b>	<b>23</b>	<b>17</b>	<b>19</b>
<b>Total impairment provisions</b>	<b>270</b>	<b>215</b>	<b>239</b>	<b>23</b>	<b>17</b>	<b>19</b>
Provisions for impairment on loans	244	191	214	17	12	14
Provisions for impairment on off-balance sheet credit exposures	26	24	25	6	5	5
<b>Total impairment provisions</b>	<b>270</b>	<b>215</b>	<b>239</b>	<b>23</b>	<b>17</b>	<b>19</b>

<sup>1</sup> Past due assets and other assets under administration are not impaired assets.

<sup>2</sup> Interest income accrued on impaired assets is included within interest income for the period/year.

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

## Note 13 Impaired assets (continued)

The above table is further analysed by class in the following tables:

### Housing

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m
<b>Individually impaired assets</b>						
Balance at beginning of the period/year	79	45	45	-	45	45
Impaired assets vested during the period/year	-	-	-	-	(45)	(45)
Additions	90	37	107	-	-	-
Amounts written off	(2)	(1)	(2)	-	-	-
Returned to performing or repaid	(57)	(37)	(71)	-	-	-
<b>Balance at end of the period/year</b>	<b>110</b>	<b>44</b>	<b>79</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Restructured assets</b>						
Balance at beginning of the period/year	-	-	-	-	-	-
Restructured assets vested during the period/year	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Deletions	-	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Past due assets 1 to 89 days<sup>1</sup></b>						
Balance at beginning of the period/year	2,584	2,076	2,076	-	2,076	2,076
Past due assets vested during the period/year	-	-	-	-	(2,076)	(2,076)
Additions	4,135	3,470	7,229	-	-	-
Deletions	(5,111)	(3,127)	(6,721)	-	-	-
<b>Balance at end of the period/year</b>	<b>1,608</b>	<b>2,419</b>	<b>2,584</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Past due assets 90+ days<sup>1</sup></b>						
Balance at beginning of the period/year	60	42	42	-	42	42
Past due assets vested during the period/year	-	-	-	-	(42)	(42)
Additions	142	101	194	-	-	-
Deletions	(97)	(90)	(176)	-	-	-
<b>Balance at end of the period/year</b>	<b>105</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Other assets under administration<sup>1</sup></b>						
Balance at beginning of the period/year	-	-	-	-	-	-
Assets under administration vested during the period/year	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Deletions	-	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Individually assessed provisions</b>						
Balance at beginning of the period/year	15	5	5	-	5	5
Provision vested during the period/year	-	-	-	-	(5)	(5)
Impairment charges on loans:						
New provisions	16	4	18	-	-	-
Recoveries	(8)	(2)	(6)	-	-	-
Impairment charges on loans written off	(1)	1	(2)	-	-	-
<b>Balance at end of the period/year</b>	<b>22</b>	<b>8</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collectively impaired provision</b>						
Balance at beginning of the period/year	20	13	13	-	13	13
Provision vested during the period/year	-	-	-	-	(13)	(13)
Impairment charges on loans	6	4	7	-	-	-
<b>Balance at end of the period/year</b>	<b>26</b>	<b>17</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impairment provisions</b>	<b>48</b>	<b>25</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provisions for impairment on loans	48	25	35	-	-	-
Provisions for impairment on off-balance sheet credit exposures	-	-	-	-	-	-
<b>Total impairment provisions</b>	<b>48</b>	<b>25</b>	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Past due assets and other assets under administration are not impaired assets.

<sup>2</sup> Interest income accrued on impaired assets is included within interest income for the period/year.

Note 13 Impaired assets (continued)

Retail

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m
<b>Past due assets 1 to 89 days<sup>1</sup></b>						
Balance at beginning of the period/year	154	146	146	-	146	146
Past due assets vested during the period/year	-	-	-	-	(146)	(146)
Additions	432	422	840	-	-	-
Deletions	(396)	(401)	(832)	-	-	-
<b>Balance at end of the period/year</b>	<b>190</b>	<b>167</b>	<b>154</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Past due assets 90+ days<sup>1</sup></b>						
Balance at beginning of the period/year	15	11	11	-	11	11
Past due assets vested during the period/year	-	-	-	-	(11)	(11)
Additions	34	29	59	-	-	-
Deletions	(29)	(26)	(55)	-	-	-
<b>Balance at end of the period/year</b>	<b>20</b>	<b>14</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collectively impaired provision</b>						
Balance at beginning of the period/year	49	40	40	-	40	40
Provision vested during the period/year	-	-	-	-	(40)	(40)
Impairment charges on loans	11	10	9	-	-	-
<b>Balance at end of the period/year</b>	<b>60</b>	<b>50</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impairment provisions</b>	<b>60</b>	<b>50</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>-</b>
Provision for impairment on loans	60	50	49	-	-	-
Provisions for impairment on off-balance sheet credit exposures	-	-	-	-	-	-
<b>Total impairment provisions</b>	<b>60</b>	<b>50</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Past due assets are not impaired assets.

<sup>2</sup> Interest income accrued on impaired assets is included within interest income for the period/year.

## Note 13 Impaired assets (continued)

### Corporate

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Unaudited \$m
<b>Individually impaired assets</b>						
Balance at beginning of the period/year	37	19	19	-	19	19
Impaired assets vested during the period/year	-	-	-	-	(19)	(19)
Additions	13	8	31	-	-	-
Amounts written off	(17)	(2)	(5)	-	-	-
Returned to performing or repaid	(5)	(4)	(8)	-	-	-
<b>Balance at end of the period/year</b>	<b>28</b>	<b>21</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Restructured assets</b>						
Balance at beginning of the period/year	2	-	-	-	-	-
Restructured assets vested during the period/year	-	-	-	-	-	-
Additions	1	-	2	-	-	-
Deletions	-	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>3</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Past due assets 1 to 89 days<sup>1</sup></b>						
Balance at beginning of the period/year	559	422	422	-	422	422
Past due assets vested during the period/year	-	-	-	-	(422)	(422)
Additions	1,711	1,309	2,595	-	-	-
Deletions	(1,755)	(1,344)	(2,458)	-	-	-
<b>Balance at end of the period/year</b>	<b>515</b>	<b>387</b>	<b>559</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Past due assets 90+ days<sup>1</sup></b>						
Balance at beginning of the period/year	81	66	66	-	66	66
Past due assets vested during the period/year	-	-	-	-	(66)	(66)
Additions	174	79	134	-	-	-
Deletions	(101)	(52)	(119)	-	-	-
<b>Balance at end of the period/year</b>	<b>154</b>	<b>93</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Other assets under administration<sup>1</sup></b>						
Balance at beginning of the period/year	-	-	-	-	-	-
Assets under administration vested during the period/year	-	-	-	-	-	-
Additions	-	-	-	-	-	-
Deletions	-	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Undrawn balance</b>	-	-	-	-	-	-
<b>Individually assessed provisions</b>						
Balance at beginning of the period/year	11	10	10	-	10	10
Provision vested during the period/year	-	-	-	-	(10)	(10)
Impairment charges on loans:						
New provisions	13	24	11	-	-	-
Recoveries	(4)	(21)	(8)	-	-	-
Impairment charges on loans written off	(12)	(3)	(2)	-	-	-
<b>Balance at end of the period/year</b>	<b>8</b>	<b>10</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Collectively impaired provision</b>						
Balance at beginning of the period/year	144	104	104	19	104	104
Provision vested during the period/year	-	-	-	-	(94)	(94)
Impairment charges on loans	10	26	40	4	7	9
<b>Balance at end of the period/year</b>	<b>154</b>	<b>130</b>	<b>144</b>	<b>23</b>	<b>17</b>	<b>19</b>
<b>Total impairment provisions</b>	<b>162</b>	<b>140</b>	<b>155</b>	<b>23</b>	<b>17</b>	<b>19</b>
Provisions for impairment on loans	136	116	130	17	12	14
Provisions for impairment on off-balance sheet credit exposures	26	24	25	6	5	5
<b>Total impairment provisions</b>	<b>162</b>	<b>140</b>	<b>155</b>	<b>23</b>	<b>17</b>	<b>19</b>

<sup>1</sup> Past due assets and other assets under administration are not impaired assets.

<sup>2</sup> Interest income accrued on impaired assets is included within interest income for the period/year.

Note 14 Goodwill and other intangible assets

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Goodwill</b>						
Cost	547	547	547	-	-	-
Accumulated impairment	(20)	-	-	-	-	-
<b>Net carrying amount of goodwill</b>	<b>527</b>	<b>547</b>	<b>547</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Computer software</b>						
Cost	375	344	361	2	2	3
Accumulated amortisation and impairment losses	(257)	(215)	(235)	(2)	(2)	(3)
<b>Net carrying amount of computer software</b>	<b>118</b>	<b>129</b>	<b>126</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total goodwill and other intangible assets</b>	<b>645</b>	<b>676</b>	<b>673</b>	<b>-</b>	<b>-</b>	<b>-</b>

	NZ Banking Group			NZ Branch		
	Goodwill \$m	Computer Software \$m	Total \$m	Goodwill \$m	Computer Software \$m	Total \$m
Balance as at 1 October 2007	547	126	673	-	-	-
Assets vested during the period	-	-	-	-	-	-
Additions	-	14	14	-	-	-
Disposals	-	-	-	-	-	-
Amortisation	-	(22)	(22)	-	-	-
Impairment	(20)	-	(20)	-	-	-
<b>Net carrying amount as at 31 March 2008 (unaudited)</b>	<b>527</b>	<b>118</b>	<b>645</b>	<b>-</b>	<b>-</b>	<b>-</b>
Balance as at 1 October 2006	547	129	676	477	129	606
Assets vested during the period	-	-	-	(477)	(129)	(606)
Additions	-	18	18	-	2	2
Disposals	-	-	-	-	-	-
Amortisation	-	(18)	(18)	-	(2)	(2)
<b>Net carrying amount as at 31 March 2007 (unaudited)</b>	<b>547</b>	<b>129</b>	<b>676</b>	<b>-</b>	<b>-</b>	<b>-</b>
Balance as at 1 October 2006	547	129	676	477	129	606
Assets vested during the year	-	-	-	(477)	(129)	(606)
Additions	-	35	35	-	3	3
Disposals	-	-	-	-	-	-
Amortisation	-	(38)	(38)	-	(3)	(3)
<b>Net carrying amount as at 30 September 2007 (audited)</b>	<b>547</b>	<b>126</b>	<b>673</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Goodwill disclosure for Westpac New Zealand and BT Funds Management (NZ) Limited ('BTFG').**

Goodwill is allocated to, and tested for impairment as a part of identified CGUs.

The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations use discounted cash flow projections based on management forecasts approved by the Board covering a three-year period. Forecast cash flows beyond the three-year period assume either zero growth or ten-year average historical growth rates. The discount rate used is the before tax equivalent of the NZ Banking Group's cost of capital.

Goodwill has been allocated to the following CGUs for the purpose of measuring recoverable amount:

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Westpac New Zealand	512	512	512	-	-	-
BTFG	15	35	35	-	-	-
<b>Net carrying amount of goodwill</b>	<b>527</b>	<b>547</b>	<b>547</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Impairment charge on goodwill**

During the current reporting period, the Overseas Bank made a decision to amalgamate the BT Investment Management operation into one separate legal entity, BT Investment Management Limited ('BTIM'), with a portion sold off as part of an initial public offering. The Overseas Bank has retained 60% of the equity in BTIM, with the balance held by investment professionals employed by BTIM and other investors. The Investment Management operations within the NZ Banking Group were not part of the operations transferred to BTIM. However, as a result of the Overseas Banking Group's decision, the cash flows of the Funds Management operation within the NZ Banking Group allocated to the BT Funds Management (NZ) Limited CGU have been adversely affected and an impairment charge of \$20 million (31 March 2007: nil, 30 September 2007: nil) has been recorded against the goodwill associated with this CGU. A pre-tax discount rate of 15.7% was applied to the cash flow projections in determining the recoverable amount of the CGU.

## Note 15 Property, plant and equipment

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Leasehold improvements</b>						
Cost	141	136	136	-	-	-
Assets vested during the period/year	-	-	-	-	-	-
Accumulated depreciation and impairment losses	(97)	(88)	(92)	-	-	-
<b>Net carrying amount of leasehold improvements</b>	<b>44</b>	<b>48</b>	<b>44</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Furniture and equipment</b>						
Cost	217	223	216	3	4	129
Assets vested during the period/year	-	-	-	-	-	(23)
Accumulated depreciation and impairment losses	(179)	(176)	(171)	(3)	(4)	(106)
<b>Net carrying amount of furniture and equipment</b>	<b>38</b>	<b>47</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total property, plant and equipment</b>	<b>82</b>	<b>95</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>-</b>

	NZ Banking Group			NZ Branch		
	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m
Balance as at 1 October 2007	44	45	89	-	-	-
Additions	5	1	6	-	1	1
Disposals and assets held for sale	-	-	-	-	-	-
Depreciation	(5)	(8)	(13)	-	(1)	(1)
<b>Net carrying amount as at 31 March 2008 (unaudited)</b>	<b>44</b>	<b>38</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>-</b>
Balance as at 1 October 2006	47	50	97	-	23	23
Assets vested during the period	-	-	-	-	(23)	(23)
Additions	6	6	12	-	4	4
Disposals and assets held for sale	-	(1)	(1)	-	-	-
Depreciation	(5)	(8)	(13)	-	(4)	(4)
<b>Net carrying amount as at 31 March 2007 (unaudited)</b>	<b>48</b>	<b>47</b>	<b>95</b>	<b>-</b>	<b>-</b>	<b>-</b>
Balance as at 1 October 2006	47	50	97	-	23	23
Assets vested during the year	-	-	-	-	(23)	(23)
Additions	9	12	21	-	1	1
Disposals and assets held for sale	(1)	(1)	(2)	-	-	-
Depreciation	(11)	(16)	(27)	-	(1)	(1)
<b>Net carrying amount as at 30 September 2007 (audited)</b>	<b>44</b>	<b>45</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Property, plant and equipment under construction

There are no items of property, plant and equipment that are currently under construction.



Note 16 Deferred tax assets

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Deferred tax assets are attributable to the following:</b>						
Property, plant and equipment	6	9	6	(1)	-	-
Provision for loan impairment	90	71	79	7	6	6
Provision for employee entitlements	22	23	26	1	2	3
Cash flow hedge	-	-	-	-	-	-
Other temporary differences	(1)	4	7	2	4	2
Amounts recognised directly in equity	3	-	3	3	-	3
Set off of deferred tax liabilities (refer to Note 22)	(22)	(25)	(29)	(8)	(3)	(11)
<b>Balance at end of the period/year</b>	<b>98</b>	<b>82</b>	<b>92</b>	<b>4</b>	<b>9</b>	<b>3</b>
<b>Movements</b>						
Balance at beginning of the period/year	92	95	95	3	83	83
Prior period/year adjustments	(1)	(5)	(5)	10	(5)	(5)
Adoption of NZ IAS 32/39	-	-	-	-	-	-
Transfer out of deferred tax asset (refer to Note 22)	-	5	5	-	5	5
Transfer out of deferred tax asset during local incorporation	-	-	-	-	(73)	(73)
Set off of deferred tax liabilities (refer to Note 22)	(22)	(25)	(29)	(8)	(3)	(11)
Credited/(charged) to the income statement	-	12	30	(2)	2	1
Change in corporate tax rate (refer to Note 7)	(3)	-	(7)	(2)	-	-
Credited to equity	32	-	3	3	-	3
<b>Balance at end of the period/year</b>	<b>98</b>	<b>82</b>	<b>92</b>	<b>4</b>	<b>9</b>	<b>3</b>

Note 17 Other assets

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Accrued interest receivable	209	164	205	56	38	49
Securities sold not yet delivered	15	79	72	15	79	72
Other assets	540	408	538	449	266	482
<b>Total other assets</b>	<b>764</b>	<b>651</b>	<b>815</b>	<b>520</b>	<b>383</b>	<b>603</b>

Note 18 Due to other financial institutions

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Interest bearing	397	2,735	510	397	728	503
Non-interest bearing	19	581	360	19	581	360
<b>Total due to other financial institutions</b>	<b>416</b>	<b>3,316</b>	<b>870</b>	<b>416</b>	<b>1,309</b>	<b>863</b>
Due to other financial institutions:						
At call	416	1,309	863	416	1,309	863
Term	-	2,007	7	-	-	-
<b>Total due to other financial institutions</b>	<b>416</b>	<b>3,316</b>	<b>870</b>	<b>416</b>	<b>1,309</b>	<b>863</b>

## Note 19 Deposits

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Deposits at fair value</b>						
Certificates of deposit	4,284	3,546	3,555	-	-	20
<b>Total deposits at fair value</b>	<b>4,284</b>	<b>3,546</b>	<b>3,555</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Deposits at amortised cost</b>						
Non-interest bearing, repayable at call	2,314	2,132	2,235	169	109	138
Other interest bearing:						
At call	13,345	12,967	13,146	2,781	2,781	2,793
Term	15,791	13,244	14,629	861	938	1,203
<b>Total deposits at amortised cost</b>	<b>31,450</b>	<b>28,343</b>	<b>30,010</b>	<b>3,811</b>	<b>3,828</b>	<b>4,134</b>
<b>Total deposits</b>	<b>35,734</b>	<b>31,889</b>	<b>33,565</b>	<b>3,811</b>	<b>3,828</b>	<b>4,154</b>

As a result of the vesting of assets and liabilities in Westpac New Zealand Limited (as described in Note 50), the NZ Branch held no retail deposits as at 31 March 2008 (31 March 2007: nil, 30 September 2007: nil).

## Note 20 Other trading liabilities

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Held for trading</b>						
Securities sold short	141	86	50	141	86	50
Securities sold under agreements to repurchase	150	72	64	150	72	64
<b>Total other trading liabilities</b>	<b>291</b>	<b>158</b>	<b>114</b>	<b>291</b>	<b>158</b>	<b>114</b>

## Note 21 Debt issues

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Short term debt</b>						
Commercial paper	7,706	7,453	9,571	-	-	-
<b>Total short term debt</b>	<b>7,706</b>	<b>7,453</b>	<b>9,571</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Long term debt</b>						
Euro medium term notes	3,625	2,294	2,857	-	-	-
Corporate bonds	53	-	-	-	-	-
<b>Total long term debt</b>	<b>3,678</b>	<b>2,294</b>	<b>2,857</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total debt issues</b>	<b>11,384</b>	<b>9,747</b>	<b>12,428</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the financial statements

## Note 22 Deferred tax liabilities

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	<b>Deferred tax liabilities are attributable to the following:</b>					
Property, plant and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	-	-
Other temporary differences	9	-	11	8	-	11
Amounts recognised directly in equity	13	25	29	-	3	-
Set off of deferred tax assets (refer to Note 16)	(22)	(25)	(29)	(8)	(3)	(11)
<b>Balance at end of the period/year</b>	-	-	11	-	-	-
<b>Movements</b>						
Balance at beginning of the period/year	11	-	-	-	-	-
Prior period/year adjustments	-	5	5	5	5	5
Transfer in of deferred tax liability (refer to Note 16)	-	5	5	-	5	5
Set off of deferred tax assets (refer to Note 16)	(22)	(25)	(29)	(8)	(3)	(11)
Charged to the income statement	(5)	-	5	-	-	6
Change to corporate tax rate (refer to Note 7)	-	-	1	-	-	-
Charged/(credited) to equity	16	15	24	3	(7)	(5)
<b>Balance at end of the period/year</b>	-	-	11	-	-	-

As at 31 March 2008, the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (31 March 2007: nil, 30 September 2007: nil).

## Note 23 Provisions

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	Long service leave	9	9	9	1	1
Annual leave and other staff benefits	23	20	33	2	5	7
Non-lending losses	3	1	2	-	-	-
Off-balance sheet provisions	25	24	24	6	5	5
<b>Total provisions</b>	<b>60</b>	<b>54</b>	<b>68</b>	<b>9</b>	<b>11</b>	<b>13</b>
	<b>Long Service Leave</b>	<b>Annual Leave and Other Staff Benefits</b>	<b>Non-lending Losses</b>	<b>Off-balance Sheet Provisions</b>	<b>Restructuring Provisions</b>	<b>Total</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>NZ Banking Group</b>						
Balance as at 1 October 2007	9	33	2	24	-	68
Additional provisions recognised	1	14	1	1	2	19
Utilised during the period	(1)	(24)	-	-	(2)	(27)
<b>Balance as at 31 March 2008</b>	<b>9</b>	<b>23</b>	<b>3</b>	<b>25</b>	<b>-</b>	<b>60</b>
<b>NZ Branch</b>						
Balance as at 1 October 2007	1	7	-	5	-	13
Additional provisions recognised	-	4	-	1	-	5
Utilised during the period	-	(9)	-	-	-	(9)
<b>Balance as at 31 March 2008</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>9</b>

## Note 24 Other liabilities

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	Accrued interest payable	393	305	442	15	12
Securities purchased but not yet delivered	7	11	58	7	11	58
Claims reserves	12	11	12	-	-	-
Credit card loyalty programme	30	27	29	-	-	-
Other liabilities	267	231	166	93	114	13
<b>Total other liabilities</b>	<b>709</b>	<b>585</b>	<b>707</b>	<b>115</b>	<b>137</b>	<b>89</b>

## Note 25 Subordinated debentures

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Junior subordinated debentures	688	699	660	688	699	660
Fixed Interest Resettable Trust Securities	-	728	730	-	728	730
<b>Total subordinated debentures</b>	<b>688</b>	<b>1,427</b>	<b>1,390</b>	<b>688</b>	<b>1,427</b>	<b>1,390</b>

### Junior subordinated debentures

On 5 April 2004, the NZ Branch issued US\$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV, being a member of the Overseas Banking Group.

The convertible debentures are unsecured obligations of the NZ Branch and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Branch'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 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 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, 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 Branch 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.

In accordance with the terms of the Westpac FIRsTS, on 31 December 2007, the Overseas Bank exchanged the FIRsTS for cash (equal to A\$100 per FIRsTS) and requested Westpac Funds Management Limited to redeem the FIRsTS. In accordance with the terms of the convertible debentures, the NZ Branch was then required to redeem for cash the convertible debentures at their face value. The convertible debentures were redeemed on 31 December 2007.

These convertible debentures were unsecured obligations and ranked 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 was stated to rank equally with, or junior to, the convertible debentures.

Prior to redemption, a final distribution was paid on the convertible debentures on 31 December 2007 based on a rate of 7.82% per annum.

## Note 26 Priority of financial liabilities in the event of liquidation

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Deposits at amortised cost	31,450	28,343	30,010	3,811	3,828	4,134
Deposits at fair value	4,284	3,546	3,555	-	-	20
Debt issues	11,384	9,747	12,428	-	-	-
Due to other financial institutions	416	3,316	870	416	1,309	863
Other trading liabilities at fair value	291	158	114	291	158	114
Derivative financial instruments	2,927	2,111	3,309	2,927	2,111	3,309
Other liabilities	697	574	695	115	137	89
Subordinated debentures	688	1,427	1,390	688	1,427	1,390
Due to related entities	8,609	5,918	8,385	11,293	7,204	9,320
<b>Total financial liabilities</b>	<b>60,746</b>	<b>55,140</b>	<b>60,756</b>	<b>19,541</b>	<b>16,174</b>	<b>19,239</b>

## Note 27 Convertible debentures

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Trust preferred securities	1,284	1,284	1,284	1,284	1,284	1,284

**Trust preferred securities**

During the year ended 30 September 2003, the NZ Branch 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 Branch and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Branch's obligations to its depositors and creditors.

The convertible debentures will pay 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, 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 Branch 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 Branch 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 Branch 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 28 Related entities

### NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 and their jointly owned subsidiary PF No. 2, Westpac NZ Funding Limited, BT Financial Group (NZ) Limited and its subsidiaries, Westpac Group Investment - NZ - Limited, Westpac Financial Services Group - NZ - Limited and its subsidiaries and Westpac New Zealand Group Limited and its subsidiaries.

Westpac Group Investment - NZ - Limited's sole subsidiary is Westpac Holdings - NZ - Limited, which in turn has its subsidiaries listed below.

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Non-trading company	
Westpac Equity Investments NZ Limited	Finance company	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
Westpac Capital - NZ - Limited	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
Westpac Overseas Investments Limited	Finance company	
Westpac Finance Limited	Finance company	
WestpacTrust Securities NZ Limited	Funding company	

The subsidiaries of BT Financial Group (NZ) Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
BT Funds Management NZ Limited	Funds management company	

The subsidiaries of Westpac Financial Services Group - NZ - Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac Life - NZ - Limited	Life insurance company	
Westpac Nominees - NZ - Limited	Nominee company	
Westpac Superannuation Nominees - NZ - Limited	Nominee company	

The subsidiaries of Westpac New Zealand Group Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac New Zealand Limited	Registered bank	Incorporated 14 February 2006
Westpac NZ Operations Limited	Holding company	Incorporated 29 August 2006
Westpac (NZ) Investments Limited	Property owning and capital funding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac Securities NZ Limited	Funding company	Incorporated 29 August 2006

The NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets:

- Waratah Receivables Corporation NZ Limited;
- Waratah Securities Australia Limited (NZ Branch);
- WST – Funding Trust New Zealand (NZ Branch);
- WST – NZ Warehouse Trust #1; and
- WST – NZ Series WLIS #6 Trust.

NZ Banking Group together with its subsidiaries provide retail, corporate and investment banking services.

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a balance date of 30 September and are incorporated and domiciled in New Zealand, except TBNZ Investments (UK) Limited which is incorporated and domiciled in the United Kingdom and Waratah Securities Australia Limited which is incorporated and domiciled in Australia.

## Note 28 Related entities (continued)

Tasman Funding No. 1 Limited and Tasman Funding No. 2 Limited, wholly owned subsidiaries of a member of the Overseas Banking Group, were incorporated on 15 August 2005. Pacific Funding, a jointly owned subsidiary of Tasman Funding No. 1 Limited and Tasman Funding No. 2 Limited was wound up on 27 June 2007. PF No. 2, a jointly owned subsidiary of Tasman Funding No. 1 Limited and Tasman Funding No. 2 Limited was incorporated on 22 June 2007.

The NZ Banking Group has investments in a number of New Zealand industry-based initiatives as listed below:

- Mondex New Zealand Limited;
- Electronic Transaction Services Limited; and
- Interchange and Settlement Limited.

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

In addition to the above entities, the principal related parties of the NZ Banking Group are other significant divisions of the Overseas Banking Group, based in London, Hong Kong, Sydney, New York and Singapore.

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

### Investment in associate

During the reporting period, as a result of the VISA Inc Initial Public Offering ('**Visa Inc IPO**'), the NZ Banking Group's relationship with Cards NZ Limited changed and this entity is now equity accounted as an associate. The NZ Banking Group has equity accounted its share of the VISA Inc IPO transaction.

NZ Banking Group holds 15.4 % equity plus one VISA Inc Access Preference Share.

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Balance at beginning of the period/year	-	-	-	-	-	-
Equity share of net profit	48	-	-	-	-	-
<b>Balance at end of the period/year</b>	<b>48</b>	-	-	-	-	-

### Due to related entities

The NZ Banking Group has issued a promissory note to Cards NZ Limited in relation to the purchase of VISA Inc shares. The promissory note bears interest at market rates and will be defeased through an in-kind distribution upon liquidation of Cards NZ Limited.

### Incorporation and disposals of related entities

On 1 November 2006, Westpac Holding-NZ-Limited sold its related entities Westpac (NZ) Investments Limited, The Home Mortgage Company Limited and its 51% interest in The Warehouse Financial Services Limited, each of whose business relates to retail banking operations, to Westpac NZ Operations Limited. These companies were purchased at the net asset value as at 31 October 2006 on 1 November 2006.

### Nature of transactions

The NZ Branch pays subvention payments to the members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Branch for the six months ended 31 March 2008 was nil (31 March 2007: \$27 million, 30 September 2007: \$41 million). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Branch. There were no management fees paid for the six months ended 31 March 2008 (31 March 2007: \$0.5 million, 30 September 2007: \$0.3 million).

A member of the NZ Banking Group provides funding to the NZ Branch. Management fees are paid by the NZ Branch for these services. There were no management fees paid for the six months ended 31 March 2008 (31 March 2007: \$0.5 million, 30 September 2007: nil).

The NZ Banking Group receives overnight funding from the London branch of Westpac Banking Corporation on an as needs basis.

The Overseas Bank guarantees medium term notes and other debt securities issued by WestpacTrust Securities NZ Limited, the proceeds of which are immediately on lent to the NZ Branch. The Overseas Bank does not guarantee the debt issues of Westpac Securities NZ Limited, which are guaranteed by Westpac New Zealand Limited only.

Westpac Securitisation Administration Limited provides custodial services on behalf of the Westpac Home Loan Trust and the Westpac Mortgage Investment Fund for which it receives fees.

On 20 February 2008, Westpac New Zealand Limited issued 20,000 B Voting shares for \$20,000 to Westpac Overseas Holdings No. 2 Pty Limited and 1,300,000,000 redeemable preference shares ('**RPS**') for \$1,300,000,000 to Sixty Martin Place (Holdings) Pty Limited (a subsidiary of the Overseas Bank) as general partner of the Westpac Pacific Limited Partnership. The B Voting shares and RPS were issued as part of a funding transaction with the Overseas Bank, Westpac Overseas Holdings No. 2 Pty Limited, and Sixty Martin Place (Holdings) Pty Limited as general partner of the Westpac Pacific Limited Partnership.

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

During the reporting period, the NZ Banking Group purchased VISA Inc shares from Cards NZ Limited at fair market value totalling \$48 million. The purchase was satisfied through the issue of a promissory note.

## Note 29 Derivative financial instruments

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

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

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

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

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

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

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

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

The NZ Banking Group uses derivatives in two distinct capacities; as a trader and as an end-user as part of its asset and liability management activities.

### Trading

As a trader, the NZ Banking Group's primary objective is to derive income from the sale of derivatives to meet the NZ Banking Group's customers needs. In addition to the sale of derivatives to customers, the NZ Banking Group also undertakes market making and discretionary trading activities. This process ensures liquidity in the key markets in which the NZ Banking Group operates. The NZ Banking Group also trades on its own account to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. These activities, known as proprietary trading, represent a limited part of the NZ Banking Group's derivative activities.

### Hedging

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

#### **Fair value hedges**

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

For the NZ Banking Group, the change in the fair value of hedging instruments designated in fair value hedges was \$90 million gain (31 March 2007: \$101 million gain, 30 September 2007: \$153 million gain) while the change in the fair value of hedged items, attributed to the hedge risk was \$76 million loss (31 March 2007: \$87 million loss, 30 September 2007: \$123 million loss).

#### **Cash flow hedges**

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. There were no transactions for which cash flow hedge accounting had to be ceased in the six months ended 31 March 2008 as a result of highly probable cash flows no longer expected to occur.

All derivatives for the NZ Banking Group are held in the NZ Branch. Derivatives with related parties are included in due from and to related entities.



# Notes to the financial statements

## Note 29 Derivative financial instruments (continued)

NZ Banking Group			
31 March 2008 – Unaudited			
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	24,426	8	-
Forwards	7,486	2	(1)
Swaps	210,186	1,491	(1,443)
Options	4,942	14	(20)
<b>Foreign exchange derivatives</b>			
Forwards	31,439	584	(491)
Swaps	31,201	402	(849)
<b>Total held for trading derivatives</b>	<b>309,680</b>	<b>2,501</b>	<b>(2,804)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	11,278	49	(73)
<b>Foreign exchange derivatives</b>			
Swaps	-	-	-
<b>Total fair value hedging derivatives</b>	<b>11,278</b>	<b>49</b>	<b>(73)</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	6,180	23	(50)
<b>Total cash flow hedging derivatives</b>	<b>6,180</b>	<b>23</b>	<b>(50)</b>
<b>Total derivatives</b>	<b>327,138</b>	<b>2,573</b>	<b>(2,927)</b>

The notional and fair value amounts disclosed in this note do not include derivatives with related parties. The fair value of such derivatives are included within amounts due from/to related entities.

Underlying cash flows from cash flow hedges are expected to occur in the following periods:

NZ Banking Group								
31 March 2008 – Unaudited								
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	6	4	30	29	15	10	5	1
Cash outflows (liabilities)	2	4	31	30	16	10	6	1

For the six months ended 31 March 2008, a gain on cash flow hedges of \$19 million was recognised due to hedge ineffectiveness (31 March 2007: \$4 million loss, 30 September 2007: \$8 million loss) in the NZ Banking Group.

NZ Banking Group			
31 March 2007 – Unaudited			
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	14,708	4	-
Forwards	13,697	6	(6)
Swaps	165,981	901	(1,004)
Options	3,195	13	(9)
<b>Foreign exchange derivatives</b>			
Forwards	23,064	361	(328)
Swaps	24,423	379	(662)
<b>Total held for trading derivatives</b>	<b>245,068</b>	<b>1,664</b>	<b>(2,009)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	9,475	100	(66)
<b>Foreign exchange derivatives</b>			
Swaps	612	20	(3)
<b>Total fair value hedging derivatives</b>	<b>10,087</b>	<b>120</b>	<b>(69)</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	7,844	107	(33)
<b>Total cash flow hedging derivatives</b>	<b>7,844</b>	<b>107</b>	<b>(33)</b>
<b>Total derivatives</b>	<b>262,999</b>	<b>1,891</b>	<b>(2,111)</b>

## Note 29 Derivative financial instruments (continued)

Underlying cash flows from cash flow hedges are expected to occur in the following periods:

	<b>NZ Banking Group</b>							
	31 March 2007 – Unaudited							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	5	7	33	28	13	8	5	1
Cash outflows (liabilities)	4	9	31	28	14	8	5	1

	<b>NZ Banking Group</b>		
	30 September 2007 – Audited		
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	13,902	7	-
Forwards	13,965	10	(17)
Swaps	191,072	1,382	(1,394)
Options	5,174	18	(17)
<b>Foreign exchange derivatives</b>			
Forwards	31,954	629	(639)
Swaps	28,008	618	(1,006)
<b>Total held for trading derivatives</b>	<b>284,075</b>	<b>2,664</b>	<b>(3,073)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	10,303	192	(145)
<b>Foreign exchange derivatives</b>			
Swaps	654	10	(14)
<b>Total fair value hedging derivatives</b>	<b>10,957</b>	<b>202</b>	<b>(159)</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	4,330	79	(77)
<b>Total cash flow hedging derivatives</b>	<b>4,330</b>	<b>79</b>	<b>(77)</b>
<b>Total derivatives</b>	<b>299,362</b>	<b>2,945</b>	<b>(3,309)</b>

Underlying cash flows from cash flow hedges are expected to occur in the following periods:

	<b>NZ Banking Group</b>							
	30 September 2007 – Audited							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	6	6	32	27	14	9	5	1
Cash outflows (liabilities)	3	8	29	30	15	9	5	1

# Notes to the financial statements

## Note 29 Derivative financial instruments (continued)

	NZ Branch		
	31 March 2008 – Unaudited		
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	24,426	8	-
Forwards	7,486	2	(1)
Swaps	227,644	1,563	(1,566)
Options	4,942	14	(20)
<b>Foreign exchange derivatives</b>			
Forwards	31,439	584	(491)
Swaps	31,201	402	(849)
<b>Total held for trading derivatives</b>	<b>327,138</b>	<b>2,573</b>	<b>(2,927)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Foreign exchange derivatives</b>			
Swaps	-	-	-
<b>Total fair value hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Total cash flow hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total derivatives</b>	<b>327,138</b>	<b>2,573</b>	<b>(2,927)</b>

  

	NZ Branch		
	31 March 2007 – Unaudited		
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	14,708	4	-
Forwards	13,697	6	(6)
Swaps	183,300	1,108	(1,103)
Options	3,195	13	(9)
<b>Foreign exchange derivatives</b>			
Forwards	23,064	361	(328)
Swaps	25,035	399	(665)
<b>Total held for trading derivatives</b>	<b>262,999</b>	<b>1,891</b>	<b>(2,111)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Foreign exchange derivatives</b>			
Swaps	-	-	-
<b>Total fair value hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Total cash flow hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total derivatives</b>	<b>262,999</b>	<b>1,891</b>	<b>(2,111)</b>

## Note 29 Derivative financial instruments (continued)

	<b>NZ Branch</b>		
	30 September 2007 – Audited		
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
<b>Held for trading derivatives</b>			
<b>Interest rate derivatives</b>			
Futures	13,902	7	-
Forwards	13,965	10	(17)
Swaps	205,705	1,653	(1,616)
Options	5,174	18	(17)
<b>Foreign exchange derivatives</b>			
Forwards	31,954	629	(639)
Swaps	28,662	628	(1,020)
<b>Total held for trading derivatives</b>	<b>299,362</b>	<b>2,945</b>	<b>(3,309)</b>
<b>Fair value hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Foreign exchange derivatives</b>			
Swaps	-	-	-
<b>Total fair value hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flow hedging derivatives</b>			
<b>Interest rate derivatives</b>			
Swaps	-	-	-
<b>Foreign exchange derivatives</b>			
Swaps	-	-	-
<b>Total cash flow hedging derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total derivatives</b>	<b>299,362</b>	<b>2,945</b>	<b>(3,309)</b>

## Note 30 Interest earning assets and interest bearing liabilities

	<b>NZ Banking Group</b>			<b>NZ Branch</b>		
	<b>31 March 2008 Unaudited \$m</b>	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	<b>31 March 2008 Unaudited \$m</b>	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Interest earning and discount bearing assets	<b>57,865</b>	52,634	56,740	<b>15,162</b>	14,449	15,283
Interest and discount bearing liabilities	<b>52,883</b>	46,872	51,287	<b>14,614</b>	11,455	12,802

## Note 31 Fair value of financial instruments

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

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

### **Certain short term financial instruments**

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

### **Floating rate financial instruments**

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

### **Trading securities**

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

### **Due from other financial institutions and fixed rate loans**

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

### **Due to other financial institutions, deposits and debt issues**

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

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

### **Exchange rate and interest rate contracts**

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

### **Subordinated debentures**

Subordinated debentures is carried at amortised cost which approximates fair value.

## Note 31 Fair value of financial instruments (continued)

	<b>NZ Banking Group</b>					
	<b>31 March 2008 Carrying Amount Unaudited \$m</b>	<b>31 March 2008 Estimated Fair Value Unaudited \$m</b>	31 March 2007 Carrying Amount Unaudited \$m	31 March 2007 Estimated Fair Value Unaudited \$m	30 September 2007 Carrying Amount Audited \$m	30 September 2007 Estimated Fair Value Audited \$m
<b>Financial assets</b>						
Cash and balances with central banks	1,016	1,016	485	485	1,387	1,387
Due from other financial institutions	487	487	1,649	1,649	591	591
Derivative financial instruments	2,573	2,573	1,891	1,891	2,945	2,945
Other trading securities	2,490	2,490	2,060	2,060	3,908	3,908
Other financial instruments designated at fair value	-	-	1,550	1,550	-	-
Available-for-sale securities	39	39	466	466	-	-
Loans	53,275	52,783	46,824	46,497	50,357	50,005
Life insurance assets	97	97	81	81	81	81
Due from related entities	3,234	3,234	2,426	2,426	3,722	3,722
Investment in associate	48	48	-	-	-	-
Other financial assets	764	764	651	651	815	815
<b>Total financial assets</b>	<b>64,023</b>	<b>63,531</b>	58,083	57,756	63,806	63,454
Non-financial assets	863		853		901	
<b>Total assets</b>	<b>64,886</b>		58,936		64,707	
<b>Financial liabilities</b>						
Due to other financial institutions	416	416	3,316	3,316	870	870
Deposits at fair value	4,284	4,284	3,546	3,546	3,555	3,555
Deposits at amortised cost	31,450	31,477	28,343	28,378	30,010	30,063
Derivative financial instruments	2,927	2,927	2,111	2,111	3,309	3,309
Other trading liabilities at fair value	291	291	158	158	114	114
Debt issues	11,384	11,470	9,747	9,728	12,428	12,366
Other financial liabilities	697	697	574	574	695	695
Subordinated debentures	688	688	1,427	1,427	1,390	1,390
Due to related entities	8,609	8,609	5,918	5,918	8,385	8,385
<b>Total financial liabilities</b>	<b>60,746</b>	<b>60,859</b>	55,140	55,156	60,756	60,747
Non-financial liabilities	72		68		91	
<b>Total liabilities</b>	<b>60,818</b>		55,208		60,847	

The total amount of the change in fair value, estimated using a valuation technique, but incorporating significant non-observable inputs, that was recognised in the profit or loss during the period in the NZ Banking Group and the NZ Branch was nil (31 March 2007: nil, 30 September 2007: nil).

## Note 31 Fair value of financial instruments (continued)

	NZ Branch					
	31 March 2008 Carrying Amount Unaudited \$m	31 March 2008 Estimated Fair Value Unaudited \$m	31 March 2007 Carrying Amount Unaudited \$m	31 March 2007 Estimated Fair Value Unaudited \$m	30 September 2007 Carrying Amount Audited \$m	30 September 2007 Estimated Fair Value Audited \$m
<b>Financial assets</b>						
Cash and balances with central banks	877	877	418	418	1,283	1,283
Due from other financial institutions	-	-	1,077	1,077	57	57
Derivative financial instruments	2,573	2,573	1,891	1,891	2,945	2,945
Other trading securities	1,134	1,134	1,059	1,059	1,525	1,525
Other financial instruments designated at fair value	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-
Loans	8,263	8,262	6,603	6,497	7,583	7,579
Due from related entities	7,584	7,584	7,476	7,476	7,902	7,902
Other financial assets	520	520	383	383	603	603
<b>Total financial assets</b>	<b>20,951</b>	<b>20,950</b>	18,907	18,801	21,898	21,894
Non-financial assets	13	-	9	-	3	-
<b>Total assets</b>	<b>20,964</b>	<b>20,950</b>	18,916	18,801	21,901	21,894
<b>Financial liabilities</b>						
Due to other financial institutions	416	416	1,309	1,309	863	863
Deposits at fair value	-	-	-	-	20	20
Deposits at amortised cost	3,811	3,808	3,828	3,827	4,134	4,129
Derivative financial instruments	2,927	2,927	2,111	2,111	3,309	3,309
Other trading liabilities at fair value	291	291	158	158	114	114
Debt issues	-	-	-	-	-	-
Other financial liabilities	115	115	137	137	89	89
Subordinated debentures	688	688	1,427	1,427	1,390	1,390
Due to related entities	11,293	11,293	7,204	7,204	9,320	9,320
<b>Total financial liabilities</b>	<b>19,541</b>	<b>19,538</b>	16,174	16,173	19,239	19,234
Non-financial liabilities	9	-	44	-	17	-
<b>Total liabilities</b>	<b>19,550</b>	<b>19,538</b>	16,218	16,173	19,256	19,234

## Note 32 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.

## Note 32 Commitments and contingent liabilities (continued)

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

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Commitments for capital expenditure</b>						
Due within one year	58	37	36	-	-	-
<b>Other expenditure commitments:</b>						
One year or less	67	70	53	-	-	-
Between one and five years	131	143	103	-	-	-
Over five years	-	-	-	-	-	-
<b>Total other expenditure commitments</b>	<b>198</b>	<b>213</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Lease commitments (all leases are classified as operating leases)</b>						
Premises and sites	236	201	199	-	-	-
Motor vehicles	3	3	3	-	-	-
<b>Total lease commitments</b>	<b>239</b>	<b>204</b>	<b>202</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Lease commitments are due as follows:</b>						
One year or less	20	34	36	-	-	-
Between one and five years	113	91	94	-	-	-
Over five years	106	79	72	-	-	-
<b>Total lease commitments</b>	<b>239</b>	<b>204</b>	<b>202</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent liabilities</b>						
Direct credit substitutes	296	282	273	243	224	211
Transaction related contingent items	691	680	695	410	425	413
Short term, self liquidating trade related contingent liabilities	789	686	793	80	89	107
<b>Total contingent liabilities</b>	<b>1,776</b>	<b>1,648</b>	<b>1,761</b>	<b>733</b>	<b>738</b>	<b>731</b>

### Other contingent liabilities

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

The New Zealand Inland Revenue Department ('NZIRD') has reviewed a number of structured finance transactions undertaken in New Zealand and has issued amended assessments in respect of nine transactions, three undertaken in the 1999 tax year, two undertaken in the 2000 tax year, two undertaken in the 2001 tax year and two undertaken in the 2002 tax year. The amended assessments relate to the 1999-2005 tax years. The overall primary tax in dispute is approximately \$586 million. With interest (net of tax) this increases to approximately \$850 million (calculated to 31 March 2008).

Proceedings disputing the amended assessments with respect to the 1999, 2000, 2001 and 2002 tax years have been commenced and proceedings disputing the 2003, 2004 and 2005 tax years' amended assessments will be commenced shortly. The NZ Banking Group is confident that the tax treatment applied in all cases is correct. A ruling was sought from the NZIRD on an early transaction in 1999. Following extensive review by the NZIRD, the ruling was issued in 2001. The principles underlying that ruling are applicable to, and have been followed in, all other transactions.

The New Zealand Commerce Commission's proceedings against Westpac New Zealand Limited and The Warehouse Financial Services Limited (members of the NZ Banking Group), Visa International, Cards NZ Limited, MasterCard International and all New Zealand issuers of Visa and MasterCard credit cards are ongoing. The proceedings allege that the setting of interchange rates and rules (relating to honour all cards, no surcharge, access and no discrimination) amount to price fixing or alternatively have the effect of substantially lessening competition in the New Zealand market in breach of the Commerce Act 1986. The proceedings seek to declare the conduct illegal and impose unspecified monetary penalties. In addition, proceedings issued by a number of New Zealand retailers, similar to the Commerce Commission's (as described above) against Westpac New Zealand Limited, The Warehouse Financial Services Limited, Visa International, Cards NZ Limited, MasterCard International and New Zealand issuers of Visa and MasterCard credit cards are ongoing. These proceedings also seek to declare the conduct illegal and an enquiry into damages. Damages awarded, if any, would be in addition to any penalties imposed under the Commerce Act 1986 in the event the Commerce Commission is successful in the proceedings described above. The NZ Banking Group is considering its position in relation to both proceedings. As at the date of this General Disclosure Statement, no provision has been made in the financial statements in relation to these proceedings.

Westpac New Zealand Limited leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require Westpac New Zealand Limited, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by Westpac New Zealand Limited upon vacation of all leased premises subject to these provisions is estimated to be \$21 million (31 March 2007: \$14 million, 30 September 2007: \$21 million). Westpac New Zealand Limited 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.

### Other commitments

As at 31 March 2008, 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.



## Note 32 Commitments and contingent liabilities (continued)

### Overseas Banking Group guarantees and undertakings

The Overseas Bank provides guarantees of debt securities issued by WestpacTrust Securities NZ Limited, the proceeds of which in accordance with APRA guidelines, are immediately on lent to the NZ Branch.

Excluded from the disclosure above are the guarantees of commercial paper and other debt securities issued by Westpac Securities NZ Limited, the proceeds of which are immediately on lent to Westpac New Zealand Limited in accordance with Reserve Bank guidelines.

## Note 33 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 as well as activities that cannot be directly attributable to any other segment within the New Zealand geographical area.

	NZ Banking Group			
	Six Months Ended 31 March 2008 – Unaudited			
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers	2,226	416	297	2,939
Internal revenue	62	56	(116)	2
<b>Total segment revenue</b>	<b>2,288</b>	<b>472</b>	<b>181</b>	<b>2,941</b>
Interest income	2,025	368	240	2,633
Interest expense	(822)	(147)	(807)	(1,776)
Internal charges <sup>1</sup>	(634)	(173)	599	(208)
<b>Net interest income</b>	<b>569</b>	<b>48</b>	<b>32</b>	<b>649</b>
Net non-interest income	201	48	57	306
Internal charges <sup>1</sup>	3	(1)	-	2
<b>Net operating income</b>	<b>773</b>	<b>95</b>	<b>89</b>	<b>957</b>
Depreciation and amortisation	(35)	-	-	(35)
Other operating expenses	(311)	(16)	(5)	(332)
Internal charges <sup>1</sup>	(3)	(3)	3	(3)
<b>Total operating expenses</b>	<b>(349)</b>	<b>(19)</b>	<b>(2)</b>	<b>(370)</b>
Impairment charges on loans	(61)	(3)	-	(64)
Impairment on goodwill	-	-	(20)	(20)
<b>Profit before income tax expense</b>	<b>363</b>	<b>73</b>	<b>67</b>	<b>503</b>
Income tax expense				(150)
Profit attributable to minority interests				(1)
<b>Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group</b>				<b>352</b>
Total external assets excluding tax	46,256	11,022	4,238	61,516
Intragroup assets				3,234
Tax assets				136
<b>Total assets</b>				<b>64,886</b>
Total external liabilities excluding tax	27,473	6,103	18,633	52,209
Intragroup liabilities				8,609
Tax liabilities				-
<b>Total liabilities</b>				<b>60,818</b>
<b>Acquisition of property, plant and equipment and intangible assets</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>20</b>

<sup>1</sup> Internal charges are eliminated at the ultimate parent level.

## Note 33 Segment information (continued)

	<b>NZ Banking Group</b>			
	Six Months Ended 31 March 2007 – Unaudited			
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers	1,853	318	213	2,384
Internal revenue	567	109	(675)	1
<b>Total segment revenue</b>	<b>2,420</b>	<b>427</b>	<b>(462)</b>	<b>2,385</b>
Interest income	1,641	278	222	2,141
Interest expense	(630)	(114)	(666)	(1,410)
Internal charges <sup>1</sup>	(517)	(128)	532	(113)
<b>Net interest income</b>	<b>494</b>	<b>36</b>	<b>88</b>	<b>618</b>
Net non-interest income	212	40	(12)	240
Internal charges <sup>1</sup>	2	(1)	-	1
<b>Net operating income</b>	<b>708</b>	<b>75</b>	<b>76</b>	<b>859</b>
Depreciation and amortisation	(31)	-	-	(31)
Other operating expenses	(305)	(13)	(3)	(321)
Internal charges <sup>1</sup>	(5)	(6)	3	(8)
<b>Total operating expenses</b>	<b>(341)</b>	<b>(19)</b>	<b>-</b>	<b>(360)</b>
Impairment charges on loans	(42)	(3)	(5)	(50)
<b>Profit before income tax expense</b>	<b>325</b>	<b>53</b>	<b>71</b>	<b>449</b>
Income tax expense				(140)
Profit attributable to minority interests				(2)
<b>Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group</b>				<b>307</b>
Total external assets excluding tax	41,251	9,355	5,822	56,428
Intragroup assets				2,426
Tax assets				82
<b>Total assets</b>				<b>58,936</b>
Total external liabilities excluding tax	23,418	4,663	21,206	49,287
Intragroup liabilities				5,918
Tax liabilities				3
<b>Total liabilities</b>				<b>55,208</b>
<b>Acquisition of property, plant and equipment and intangible assets</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>30</b>

<sup>1</sup> Internal charges are eliminated at the ultimate parent level.

# Notes to the financial statements

## Note 33 Segment information (continued)

	<b>NZ Banking Group</b>			Total \$m
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	
Revenue from external customers	3,903	705	520	5,128
Internal revenue	(30)	110	(77)	3
<b>Total segment revenue</b>	<b>3,873</b>	<b>815</b>	<b>443</b>	<b>5,131</b>
Interest income	3,486	610	507	4,603
Interest expense	(1,350)	(264)	(1,401)	(3,015)
Internal charges <sup>1</sup>	(1,112)	(248)	1,016	(344)
<b>Net interest income</b>	<b>1,024</b>	<b>98</b>	<b>122</b>	<b>1,244</b>
Net non-interest income	417	95	13	525
Internal charges <sup>1</sup>	6	(3)	-	3
<b>Net operating income</b>	<b>1,447</b>	<b>190</b>	<b>135</b>	<b>1,772</b>
Depreciation and amortisation	(65)	-	-	(65)
Other operating expenses	(612)	(27)	(3)	(642)
Internal charges <sup>1</sup>	(5)	(11)	(13)	(29)
<b>Total operating expenses</b>	<b>(682)</b>	<b>(38)</b>	<b>(16)</b>	<b>(736)</b>
Impairment charges on loans	(81)	(4)	(6)	(91)
<b>Profit before income tax expense</b>	<b>684</b>	<b>148</b>	<b>113</b>	<b>945</b>
Income tax expense				(295)
Profit attributable to minority interests				(4)
<b>Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group</b>				<b>646</b>
Total external assets excluding tax	43,836	10,887	6,123	60,846
Intragroup assets				3,722
Tax assets				139
<b>Total assets</b>				<b>64,707</b>
Total external liabilities excluding tax	25,547	6,675	20,229	52,451
Intragroup liabilities				8,385
Tax liabilities				11
<b>Total liabilities</b>				<b>60,847</b>
<b>Acquisition of property, plant and equipment and intangible assets</b>	<b>56</b>	<b>-</b>	<b>-</b>	<b>56</b>

<sup>1</sup> Internal charges are eliminated at the ultimate parent level.

### Secondary reporting – geographic segments

The NZ Banking Group operates predominantly within New Zealand.

## Note 34 Superannuation commitments

The NZ Banking Group has a defined contribution and a defined benefit superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the respective schemes, are made by the NZ Banking Group as required. Actuarial valuations of the schemes are undertaken periodically, with the last full valuation being undertaken as at 30 June 2005. Contributions to the defined benefit scheme is at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments.

The NZ Banking Group's defined benefit superannuation scheme provides lump sum and superannuation benefits. The NZ Banking Group's contributions for the six months ended 31 March 2008 were nil (31 March 2007: \$1 million, 30 September 2007: \$1 million).

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

The amount recognised in the balance sheet arising from the NZ Banking Group's obligations in respect of its defined benefit superannuation scheme was as follows:

	NZ Banking Group and NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	Present value of wholly unfunded obligations	109	128
Fair value of plan assets	(86)	(113)	(99)
<b>Present value of net obligations</b>	<b>23</b>	<b>15</b>	<b>11</b>
Actuarial gains not recognised in the balance sheet	1	13	13
<b>Net liability recognised in the balance sheet</b>	<b>24</b>	<b>28</b>	<b>24</b>
Represented by the following amounts in the balance sheet:			
Liabilities	24	28	24
<b>Net liability recognised in the balance sheet</b>	<b>24</b>	<b>28</b>	<b>24</b>

The fair value of plan assets as at 31 March 2008 included 90-day bank bills issued by, and cash balances held with the NZ Banking Group with a fair value of \$15 million (31 March 2007: \$7 million, 30 September 2007: \$19 million).

	NZ Banking Group and NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	<b>Movements in the net asset recognised in the balance sheet</b>		
Net asset at beginning of the period/year	24	29	29
Net expense recognised in the income statement	-	-	(4)
Contributions paid	-	(1)	(1)
<b>Net asset recognised at end of the period/year</b>	<b>24</b>	<b>28</b>	<b>24</b>
Return on plan assets:			
Expected return on plan assets	3	3	6
Actuarial gains on plan assets	(12)	-	2
Actual return on plan assets	(9)	3	8

### Expense recognised in the income statement

The amounts recognised in salaries and other staff expenses in the income statement as operating expenses for the reporting periods in respect of the defined benefit superannuation scheme were as follows:

	NZ Banking Group and NZ Branch		
	Six Months Ended 31 March 2008 Unaudited \$m	Six Months Ended 31 March 2007 Unaudited \$m	Year Ended 30 September 2007 Audited \$m
	Current service cost	1	1
Interest cost	2	2	5
Expected return on plan assets	(3)	(3)	(6)
Curtailments / settlements	-	-	(4)
<b>Net defined benefit expense</b>	<b>-</b>	<b>-</b>	<b>(4)</b>

## Note 34 Superannuation commitments (continued)

The primary actuarial assumptions used in the above calculations expressed as weighted averages were as follows:

	NZ Banking Group and NZ Branch		
	31 March 2008 Unaudited	31 March 2007 Unaudited	30 September 2007 Audited
	%	%	%
Discount rate at beginning of the period/year	4.5	4.0	4.4
Expected rate of return on plan assets at beginning of the period/year	6.1	5.3	6.1
Expected increase in average salary of plan members	3.5	3.5	3.5
Other material actuarial assumptions – pension increases	2.5	2.5	2.5

## Note 35 Key management disclosures

### Key management compensation

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

	NZ Banking Group		
	Six Months Ended 31 March 2008 Unaudited	Six Months Ended 31 March 2007 Unaudited	Year Ended 30 September 2007 Audited
	\$'000	\$'000	\$'000
Salaries and other short term benefits	5,727	4,158	7,777
Post-employment benefits	390	393	584
Other termination benefits	150	195	1,090
Share-based payment <sup>1</sup>	1,432	2,042	3,276
<b>Total key management compensation</b>	<b>7,699</b>	<b>6,788</b>	<b>12,727</b>

<sup>1</sup> These amounts relate to grants in January for the previous financial year, or grants made prior to the respective period/year end.

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2007 Annual Financial Report.

### Loans and deposits with key management personnel

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

As at 31 March 2008, no provisions have been recognised in respect of loans given to key management and their related parties (31 March 2007: nil, 30 September 2007: nil)

### Other related party transactions

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

## Note 36 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

### Securitisation

As at 31 March 2008, the NZ Banking Group had securitised assets amounting to \$768 million (31 March 2007: \$668 million, 30 September 2007: \$715 million) all having been sold by the NZ Banking Group to external parties being the Westpac Home Loan Trust ('HLT') and the Westpac Mortgage Investment Fund ('MIF') via the HLT.

The HLT was established in 2000 pursuant to a trust deed between BT Funds Management (NZ) Limited (formerly WestpacTrust Investment Management - NZ - Limited) and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the NZ Banking Group. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand.

In June 2005, a new fund known as the MIF was established pursuant to a trust deed between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited. The MIF was structured to meet the requirements of a Designated Group Investment Fund for the purposes of New Zealand tax law. The purpose of the MIF is to invest in home loans secured by first ranking mortgages, and the MIF can purchase these home loans from the HLT. The investment strategy of the HLT was amended in June 2005 to allow the HLT to be an investor in the units of the MIF. The HLT was the initial investor in the MIF and took units in the MIF in settlement for the sale of an initial pool of home loans. Subsequent to this, the HLT has sold and will continue to sell pools of home loans to the MIF as unit subscriptions are taken out in the MIF by retail investors.

## Note 36 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

The NZ Banking Group receives fees for various services provided to the HLT and the MIF on an arm's length basis, including servicing fees and management fees. These fees are recognised over the years in which the costs are borne. The NZ Banking Group also provides arm's length interest rate swaps to HLT and the MIF. Westpac Securitisation Administration Limited performs certain custodial services, for which it also receives fees.

The units issued by the HLT and the MIF do not represent deposits or other liabilities of either the NZ Banking Group or the Overseas Banking Group. Neither the NZ Banking Group, Westpac New Zealand Limited nor the Overseas Banking Group in any way stands behind the capital value or performance of these notes or units except to the limited extent provided in the transaction documents for those programmes through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group, Westpac New Zealand Limited, nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the notes or units. Neither the NZ Banking Group nor the Overseas Banking Group is obliged to support any losses that may be suffered by the investors in the units issued by the HLT or the MIF and neither intends to provide such support.

The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the HLT other than where there is a breach of representation or warranty within 120 days of the initial sale. A purchase of securitised assets held by the MIF may occur if the NZ Banking Group accepts an offer made by the trustee of the MIF to purchase the assets when the outstanding principal amount of the assets left in the MIF is less than 10% of the initial principal amount of assets sold to the MIF, but the NZ Banking Group is not required to accept any offer. The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the MIF or HLT.

As set out in this General Disclosure Statement, the consumer and banking operations of the NZ Branch vested in Westpac New Zealand Limited on 1 November 2006 and Westpac New Zealand Limited commenced trading as a registered bank on that date. The home loan mortgages held by the NZ Banking Group vested in Westpac New Zealand Limited from that date and any additional home loan mortgages will be purchased by the HLT from Westpac New Zealand Limited in the same manner and on the same terms as in respect of the NZ Banking Group.

In addition to its own scheme, the NZ Banking Group provides financial services, on an arm's length basis, to customers' securitisation schemes.

### Funds management and other fiduciary activities

The NZ Banking Group conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities as at balance date were as follows:

	<b>31 March 2008 Unaudited \$m</b>	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Private and priority	749	692	780
Retirement plans	279	344	327
Retail unit trusts	1,536	1,513	1,550
Wholesale unit trusts	400	454	415
<b>Total funds under management</b>	<b>2,964</b>	3,003	3,072

The value of assets in retail units described above includes the assets of HLT and the MIF.

### Involvement with the NZ Banking Group

Financial services provided by, and assets purchased from, any member of the NZ Banking Group are on arm's length terms and conditions at fair value.

### Risk management

The NZ Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures are likely to minimise the possibility that those conditions would impact adversely on the NZ Banking Group.

### Marketing and distribution of insurance products

The Overseas Banking Group markets both life insurance and general insurance. The insurance products are distributed through the NZ Banking Group's distribution channels. The life insurance products are underwritten by Westpac Life - NZ - Limited. The general insurance products are fully underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Overseas Banking Group does not guarantee the obligations of, or any products issued by, those companies.

## Note 37 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 balance date was:

	<b>31 March 2008 Unaudited \$m</b>	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Total assets</b>	<b>100</b>	85	83

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

## Note 38 Capital adequacy

### Overseas Banking Group capital adequacy ratio

#### Basel II

	<b>31 March 2008 Unaudited %</b>
<b>Overseas Banking Group</b>	
Tier One Capital, expressed as a percentage of risk weighted exposures	<b>7.4</b>
Capital, expressed as a percentage of risk weighted exposures	<b>10.1</b>

#### Basel I

	31 March 2007 Unaudited %	Minimum Capital Adequacy Ratio Specified by APRA %
<b>Overseas Banking Group</b>		
Tier One Capital, expressed as a percentage of risk weighted exposures	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	9.4	8.0
<b>Overseas Bank</b>		
Tier One Capital, expressed as a percentage of risk weighted exposures	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	10.1	8.0

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

The Overseas Banking Group and the Overseas Bank exceeds the minimum capital adequacy requirements as specified by APRA as at 31 March 2008.

## Note 38 Capital adequacy (continued)

### The Overseas Banking Group's approach to assessing capital adequacy

Capital management strategy seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an authorised deposit-taking institution. In the Overseas Banking Group, this tension between maximising efficiency, flexibility and adequacy is recognised in the consideration of the adequacy of capital and the development of capital management plans.

The Overseas Banking Group articulates these considerations formally through an Internal Capital Adequacy Assessment Process ('ICAAP'). The key features of the ICAAP include:

- the Overseas Banking Group's risk appetite is to always remain capitalised to a level above regulatory and economic capital minimums;
- the Overseas Banking Group utilises a three-year planning horizon for business and capital management plans;
- in addition to regulatory driven estimates of risk and capital requirements, the Overseas Banking Group employs an economic capital measurement framework;
- economic capital measurement is calibrated to a level of confidence required by the Overseas Banking Group's target debt rating;
- economic capital and regulatory capital requirements are respectively compared to the tangible ordinary and Tier One and Tier Two Capital levels;
- there is a challenge process to the economic capital measures, coverage and requirements. The challenge is through stress and scenario testing that considers not only the possibility of not achieving planned outcomes, but also severe but plausible scenarios (i.e. unexpected outcomes) and the impact of concentrations; and
- the development of capital plans and a capital management strategy, which includes levels of capital buffers, contingent plans, the availability of capital deployed and the various forms of capital instruments.

## Note 39 Risk management overview

The wide business scope of the NZ Banking Group requires it to take and manage a variety of risks. The NZ Banking Group regards the management of risk to be a fundamental management activity, performed at all levels. Supporting this approach is a framework of core risk principles, policies and processes for measuring and monitoring risk.

Westpac New Zealand Limited, a member of the NZ Banking Group, is a locally incorporated registered bank. Westpac New Zealand Limited's risk management framework is closely aligned with that of the Overseas Banking Group; however, the Board of Westpac New Zealand Limited is responsible for risk management of that bank and its subsidiaries. For further information on the risk management policies applying to Westpac New Zealand Limited, refer to Westpac New Zealand Limited's most recent General Disclosure Statement.

### Risk management organisation

Effectively managing the risks inherent in the business is a key strategy as well as supporting the NZ Banking Group's reputation, performance and future success. This risk management framework is approved by the Directors of the Overseas Bank (the '**Board**') and implemented through the Chief Executive Officer for Westpac New Zealand Limited ('**NZ CEO**') and the executive management team.

The Overseas Bank has a Board Audit Committee ('**Group BAC**') and a Board Risk Management Committee ('**Group BRMC**'). The Group BAC and Group BRMC are the subcommittees of the Board that are responsible for monitoring risk management performance and controls across the Overseas Banking Group.

The NZ CEO and executive management team are responsible for implementing the Board-approved risk management framework and developing policies, controls, processes and procedures for identifying and managing risk arising from the NZ Banking Group's activities.

Operational risk plays a key role in the NZ Banking Group's risk management framework. It is independent from the business units and reports to the General Manager Risk Management who is accountable for the risk compliance framework. Risk Management and Regulatory Affairs are responsible for the coordination of the response to key regulatory development and issues affecting risk management.

The Portfolio Risk Review unit and the Group Audit unit within Group Assurance of the Overseas Bank undertake independent reviews of management performance. The Portfolio Risk Review unit is responsible for reviewing credit quality and business risks, assessing credit management process quality, credit policy compliance and adequacy of provisions. Group Audit is responsible for performing an independent evaluation of the adequacy and effectiveness of management's control of operational risk.

### Core risk principles

The NZ Banking Group's core risk principles are the key guidelines for all risk management within this Group. These principles reflect the standards and ideals expressed in the NZ Banking Group's vision, values and code of conduct and are embedded in all levels of risk management policy including rules, procedures and training.

The principles for managing risk are:

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



## Note 39 Risk management overview (continued)

### Management assurance programme

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

This programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management to the General Manager Risk Management. The results of this process are reported to the New Zealand Operational Risk and Compliance Committee, chaired by the NZ CEO, a member of the Group Executive of the Overseas Bank. The NZ CEO then provides management assurance to the Group BRMC, the Group BAC and the Chief Executive Officer of the Overseas Bank.

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

The measurement and management of risk is central to the NZ Banking Group's total management processes, which are discussed in the following sections.

### Categories of risk

The key risks that the NZ Banking Group is subject to are specific banking risks and risks arising from the general business environment.

The risk management framework identifies five broad categories of risk:

- Compliance risk: the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and of failing to meet the NZ Banking Group's own ethical standards.
- Liquidity risk: the potential loss arising from cash outflows exceeding cash inflows over a given period.
- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations to the NZ Banking Group.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Market risk: the risk to earnings from changes in market factors. These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process are:
  - Currency risk: the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
  - Interest rate risk: the potential loss arising from the changes in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
  - Equity risk: the potential loss arising from decline in the value of equity instruments due to changes in their equity market processes or implied volatilities.

Additional details surrounding the risk management activities relating to the management of these risks are disclosed in the respective notes under the relevant headings.

### Specific banking risks

The risk management framework encompasses credit, market, non-trading, liquidity, compliance and operational risk. Additional details surrounding the risk management activities relating to the management of these risks are disclosed in the respective notes under the relevant headings.

### Group Assurance

Group Assurance comprises the Group Audit, Portfolio Risk Review and Model Risk Review functions. Group Audit provides an independent assessment of the adequacy and effectiveness of management's controls over operational risk. Portfolio Risk Review provides an independent assessment of the quality of the NZ Banking Group's credit activities and portfolios, the quality of credit management practices and the adequacy of credit provisioning. Model Risk Review provides an independent check of models used in the Risk Rating system for compliance with Group model risk policy. Group Assurance assessments are provided to the Group BAC, Group BRMC and senior management through the Overseas Banking Group's internal Group Assurance unit.

The Group BAC comprises of six non-executive and independent Directors of the Overseas Bank. The Group BAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations.

NZ Banking Group Assurance, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the NZ Banking Group's activities, records, property and employees. The scope of responsibility of the internal audit unit covers systems of management control across all business activities and support functions at all levels of management within the NZ Banking Group. The level of business risk determines the scope and frequency of individual audits.

### Reviews in respect of risk management systems

During the reporting period, Group Assurance participated quarterly in the Management Assurance Programme in order to assess the adequacy of the governance framework supporting operational risk management.

Group Assurance periodically reviews the adequacy and effectiveness of the market risk and liquidity systems controls.

## Note 40 Compliance risk

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

Effective compliance risk management enables the NZ Banking Group to identify emerging issues and where necessary put in place preventative measures.

The NZ Banking Group has a dedicated Operational Risk and Compliance function.

Group Operational Risk and Compliance Committee ('**OPCO**') meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. The committee monitors the business unit operational risk profiles and the action plans, and is required to escalate material matters to the Board and the Group BRMC.

## Note 41 Liquidity risk

Liquidity risk is the risk associated with the unexpected costs of ensuring demands for cash are met. The Institutional Bank's New Zealand Treasury unit ('**Treasury**') administers liquidity management in New Zealand. The Overseas Banking Group's Institutional Bank Treasury unit ('**Group Treasury**') is responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

Group Treasury manages group funding with oversight from the Overseas Banking Group's Market Risk Committee ('**Group MARCO**') and the Group BRMC. The Group BRMC approve and monitor a range of policies relating to liquidity and liability generation. Quarterly compliance reports are submitted to Group MARCO and the Group BRMC.

Key aspects of the liquidity management strategy are as follows:

### Annual liquidity risk framework review

Each financial year Group Treasury reviews its liquidity management approach. This review encompasses areas such as:

- modelling approach;
- scenarios covered;
- limit determination; and
- levels of liquid asset holdings.

Group MARCO and the Group Risk Reward Committee ('**GRRC**') review the Overseas Banking Group liquidity management approach before being submitted for approval by Group BRMC.

The liquidity risk management framework models the NZ Banking Group's ability to fund under both normal conditions and during a crisis situation. This approach is designed to ensure that this funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. These models are run globally and for specific geographical regions – including New Zealand.

### Annual funding plan

Each financial year Group Treasury undertakes a funding review. This review outlines the current funding strategy as well as proposing a funding strategy for the coming financial year and covers areas such as:

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

Group MARCO and the GRRC review the Annual Funding Plan before it is submitted for approval by Group BRMC.

### Contingency planning

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

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

### Liquidity risk capital

The Liquidity Risk Capital Model measures the risk of loss due to increased costs of ensuring that the demands for cash are met. The model constructs estimates of liquidity risk capital consistent with measurement of credit, market and operational risk capital.

## Note 41 Liquidity risk (continued)

### Expense allocation

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

### Sources of liquidity

The principal sources of the NZ Banking Group's liquidity are as follows:

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

In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

As at 31 March 2008, the NZ Banking Group held liquid assets of \$4,455 million (31 March 2007: \$2,142 million, 30 September 2007: \$4,798 million). For the purpose of this note, liquid assets are a pool of high quality assets (government securities and registered certificates of deposit issued by other banks) readily convertible to cash to meet the NZ Banking Group's liquidity requirements.

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. When managing interest rate and liquidity risks, the NZ Banking Group adjusts this contractual profile for expected customer behaviour.

## Note 41 Liquidity risk (continued)

NZ Banking Group							
31 March 2008 – Unaudited							
	Overnight	Less Than 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>							
Cash and balances with central banks	1,016	-	-	-	-	-	1,016
Due from other financial institutions	-	-	487	-	-	-	487
Derivative financial instruments:							
Held for trading	2,505	-	-	-	-	-	2,505
Held for hedging purposes (net settled)	-	46	91	(76)	6	1	68
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading securities	2,490	-	-	-	-	-	2,490
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	9	-	30	-	39
Loans	3,740	1,918	4,309	4,414	11,442	86,446	112,269
Life insurance assets	-	62	34	-	1	-	97
Due from related entities:							
Non-derivative balances	708	-	-	-	-	-	708
Derivative financial instruments:							
Held for trading	2,526	-	-	-	-	-	2,526
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	48	-	48
Other financial assets	488	278	-	-	-	-	766
<b>Total undiscounted financial assets</b>	<b>13,473</b>	<b>2,304</b>	<b>4,930</b>	<b>4,338</b>	<b>11,527</b>	<b>86,447</b>	<b>123,019</b>
<b>Liabilities</b>							
Due to other financial institutions	240	75	14	87	-	-	416
Deposits at fair value	4,284	-	-	-	-	-	4,284
Deposits at amortised cost	11,429	6,553	5,196	6,274	2,682	2	32,136
Derivative financial instruments:							
Held for trading	2,810	-	-	-	-	-	2,810
Held for hedging purposes (net settled)	-	-	50	(64)	160	-	146
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading liabilities at fair value	291	-	-	-	-	-	291
Debt issues	7	3,785	1,213	4,028	2,848	58	11,939
Other financial liabilities	-	713	-	-	-	-	713
Subordinated debentures	-	-	-	-	-	688	688
Due to related entities:							
Non-derivative balances	6,335	-	-	69	291	1,099	7,794
Derivative financial instruments:							
Held for trading	1,375	-	-	-	-	-	1,375
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>26,771</b>	<b>11,126</b>	<b>6,473</b>	<b>10,394</b>	<b>5,981</b>	<b>1,847</b>	<b>62,592</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	8,422	-	-	-	-	-	8,422
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,660	-	-	-	-	-	6,660
<b>Total undiscounted contingent liabilities and commitments</b>	<b>15,082</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,082</b>

Note 41 Liquidity risk (continued)

	NZ Banking Group						
	Overnight	Less Than 1 Month	31 March 2007 – Unaudited Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>							
Cash and balances with central banks	485	-	-	-	-	-	485
Due from other financial institutions	951	161	270	267	-	-	1,649
Derivative financial instruments:							
Held for trading	1,744	-	-	-	-	-	1,744
Held for hedging purposes (net settled)	-	24	66	(40)	8	(1)	57
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(11)	(551)	-	-	(562)
Cash inflow	-	2	4	567	-	-	573
Other trading securities	2,060	-	-	-	-	-	2,060
Other financial assets designated at fair value	-	-	1,550	-	-	-	1,550
Available-for-sale securities	-	-	450	16	-	-	466
Loans	3,319	1,546	3,590	3,773	11,765	75,108	99,101
Life insurance assets	64	16	-	-	1	-	81
Due from related entities:							
Non-derivative balances	364	-	-	-	-	-	364
Derivative financial instruments:							
Held for trading	2,062	-	-	-	-	-	2,062
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	-	-	-
Other financial assets	-	656	-	-	-	-	656
<b>Total undiscounted financial assets</b>	<b>11,049</b>	<b>2,405</b>	<b>5,919</b>	<b>4,032</b>	<b>11,774</b>	<b>75,107</b>	<b>110,286</b>
<b>Liabilities</b>							
Due to other financial institutions	874	309	2,099	34	-	-	3,316
Deposits at fair value	3,546	-	-	-	-	-	3,546
Deposits at amortised cost	15,099	4,603	4,954	3,731	336	2	28,725
Derivative financial instruments:							
Held for trading	2,012	-	-	-	-	-	2,012
Held for hedging purposes (net settled)	-	4	42	(65)	43	-	24
Held for hedging purposes (gross settled):							
Cash outflow	-	-	1	77	-	-	78
Cash inflow	-	-	(1)	(69)	-	-	(70)
Other trading liabilities at fair value	158	-	-	-	-	-	158
Debt issues	-	3,088	2,283	3,236	1,394	-	10,001
Other financial liabilities	-	577	-	-	-	-	577
Subordinated debentures	731	-	-	-	-	736	1,467
Due to related entities:							
Non-derivative balances	3,714	14	-	87	216	1,109	5,140
Derivative financial instruments:							
Held for trading	1,339	-	-	-	-	-	1,339
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>27,473</b>	<b>8,595</b>	<b>9,378</b>	<b>7,031</b>	<b>1,989</b>	<b>1,847</b>	<b>56,313</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	7,690	-	-	-	-	-	7,690
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,306	-	-	-	-	-	6,306
<b>Total undiscounted contingent liabilities and commitments</b>	<b>13,996</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,996</b>

## Note 41 Liquidity risk (continued)

	NZ Banking Group						Total \$m
	Overnight \$m	Less Than 1 Month \$m	30 September 2007 – Unaudited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
<b>Assets</b>							
Cash and balances with central banks	1,387	-	-	-	-	-	1,387
Due from other financial institutions	-	223	368	-	-	-	591
Derivative financial instruments:							
Held for trading	2,668	-	-	-	-	-	2,668
Held for hedging purposes (net settled)	-	39	96	(54)	17	-	98
Held for hedging purposes (gross settled):							
Cash outflow	-	(9)	-	(29)	(462)	-	(500)
Cash inflow	-	7	-	21	467	-	495
Other trading securities	3,908	-	-	-	-	-	3,908
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	3,439	2,050	4,412	4,259	12,172	88,330	114,662
Life insurance assets	65	16	-	-	1	-	82
Due from related entities:							
Non-derivative balances	349	-	-	-	-	-	349
Derivative financial instruments:							
Held for trading	3,373	-	-	-	-	-	3,373
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	-	-	-
Other financial assets	499	318	-	-	-	-	817
<b>Total undiscounted financial assets</b>	<b>15,688</b>	<b>2,644</b>	<b>4,876</b>	<b>4,197</b>	<b>12,195</b>	<b>88,330</b>	<b>127,930</b>
<b>Liabilities</b>							
Due to other financial institutions	759	43	72	7	-	-	881
Deposits at fair value	3,555	-	-	-	-	-	3,555
Deposits at amortised cost	13,275	7,192	4,882	4,836	421	1	30,607
Derivative financial instruments:							
Held for trading	3,100	-	-	-	-	-	3,100
Held for hedging purposes (net settled)	-	14	62	(128)	122	-	70
Held for hedging purposes (gross settled):							
Cash outflow	-	1	2	83	146	-	232
Cash inflow	-	(2)	(1)	(73)	(137)	-	(213)
Other trading liabilities at fair value	114	-	-	-	-	-	114
Debt issues	264	3,549	5,443	962	2,594	-	12,812
Other financial liabilities	-	700	-	-	-	-	700
Subordinated debentures	731	-	-	-	-	695	1,426
Due to related entities:							
Non-derivative balances	4,549	15	346	174	237	1,131	6,452
Derivative financial instruments:							
Held for trading	2,491	-	-	-	-	-	2,491
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>28,838</b>	<b>11,512</b>	<b>10,806</b>	<b>5,861</b>	<b>3,383</b>	<b>1,827</b>	<b>62,227</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	8,116	-	-	-	-	-	8,116
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,391	-	-	-	-	-	6,391
<b>Total undiscounted contingent liabilities and commitments</b>	<b>14,507</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,507</b>

# Notes to the financial statements

## Note 41 Liquidity risk (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	31 March 2008 – Unaudited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
<b>Assets</b>							
Cash and balances with central banks	877	-	-	-	-	-	877
Due from other financial institutions	-	-	-	-	-	-	-
Derivative financial instruments:							
Held for trading	2,573	-	-	-	-	-	2,573
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading securities	1,134	-	-	-	-	-	1,134
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	1,554	554	838	2,596	6,450	2,253	14,245
Life insurance assets	-	-	-	-	-	-	-
Due from related entities:							
Non-derivative balances	4,172	134	135	533	-	-	4,974
Derivative financial instruments:							
Held for trading	2,620	-	-	-	-	-	2,620
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other financial assets	448	72	-	-	-	-	520
<b>Total undiscounted financial assets</b>	<b>13,378</b>	<b>760</b>	<b>973</b>	<b>3,129</b>	<b>6,450</b>	<b>2,253</b>	<b>26,943</b>
<b>Liabilities</b>							
Due to other financial institutions	240	75	14	87	-	-	416
Deposits at fair value	-	-	-	-	-	-	-
Deposits at amortised cost	2,262	1,060	345	121	56	1	3,845
Derivative financial instruments:							
Held for trading	2,927	-	-	-	-	-	2,927
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading liabilities at fair value	291	-	-	-	-	-	291
Debt issues	-	-	-	-	-	-	-
Other financial liabilities	-	115	-	-	-	-	115
Subordinated debentures	-	-	-	-	-	688	688
Due to related entities:							
Non-derivative balances	7,633	-	29	157	2,000	1,099	10,918
Derivative financial instruments:							
Held for trading	1,522	-	-	-	-	-	1,522
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>14,875</b>	<b>1,250</b>	<b>388</b>	<b>365</b>	<b>2,056</b>	<b>1,788</b>	<b>20,722</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	3,229	-	-	-	-	-	3,229
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,082	-	-	-	-	-	2,082
<b>Total undiscounted contingent liabilities and commitments</b>	<b>5,311</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,311</b>

## Note 41 Liquidity risk (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	31 March 2007 – Unaudited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
<b>Assets</b>							
Cash and balances with central banks	418	-	-	-	-	-	418
Due from other financial institutions	951	126	-	-	-	-	1,077
Derivative financial instruments:							
Held for trading	1,744	-	-	-	-	-	1,744
Held for hedging purposes (net settled)	-	24	66	(42)	8	(1)	55
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(11)	(551)	-	-	(562)
Cash inflow	-	2	4	567	-	-	573
Other trading securities	1,059	-	-	-	-	-	1,059
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	1,306	577	406	2,097	7,438	1,659	13,483
Life insurance assets	-	-	-	-	-	-	-
Due from related entities:							
Non-derivative balances	5,895	-	-	532	-	-	6,427
Derivative financial instruments:							
Held for trading	2,113	-	-	-	-	-	2,113
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other financial assets	-	386	-	-	-	-	386
<b>Total undiscounted financial assets</b>	<b>13,486</b>	<b>1,115</b>	<b>465</b>	<b>2,603</b>	<b>7,446</b>	<b>1,658</b>	<b>26,773</b>
<b>Liabilities</b>							
Due to other financial institutions	874	309	93	33	-	-	1,309
Deposits at fair value	-	-	-	-	-	-	-
Deposits at amortised cost	2,890	457	328	144	38	-	3,857
Derivative financial instruments:							
Held for trading	2,012	-	-	-	-	-	2,012
Held for hedging purposes (net settled)	-	4	42	(65)	43	-	24
Held for hedging purposes (gross settled):							
Cash outflow	-	-	1	77	-	-	78
Cash inflow	-	-	(1)	(69)	-	-	(70)
Other trading liabilities at fair value	158	-	-	-	-	-	158
Debt issues	-	-	-	-	-	-	-
Other financial liabilities	-	138	-	-	-	-	138
Subordinated debentures	731	-	-	-	-	736	1,467
Due to related entities:							
Non-derivative balances	6,717	14	-	87	216	1,109	8,143
Derivative financial instruments:							
Held for trading	1,349	-	-	-	-	-	1,349
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>14,731</b>	<b>922</b>	<b>463</b>	<b>207</b>	<b>297</b>	<b>1,845</b>	<b>18,465</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	2,838	-	-	-	-	-	2,838
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	1,983	-	-	-	-	-	1,983
<b>Total undiscounted contingent liabilities and commitments</b>	<b>4,821</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,821</b>



# Notes to the financial statements

## Note 41 Liquidity risk (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	30 September Over 1 Month to 3 Months \$m	2007 – Unaudited Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
<b>Assets</b>							
Cash and balances with central banks	1,283	-	-	-	-	-	1,283
Due from other financial institutions	-	57	-	-	-	-	57
Derivative financial instruments:							
Held for trading	2,668	-	-	-	-	-	2,668
Held for hedging purposes (net settled)	-	39	96	(57)	17	-	95
Held for hedging purposes (gross settled):							
Cash outflow	-	(9)	-	(29)	(462)	-	(500)
Cash inflow	-	7	-	21	467	-	495
Other trading securities	1,525	-	-	-	-	-	1,525
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	1,420	1,213	950	2,463	5,607	694	12,347
Life insurance assets	-	-	-	-	-	-	-
Due from related entities:							
Non-derivative balances	4,064	-	-	574	-	-	4,638
Derivative financial instruments:							
Held for trading	3,306	-	-	-	-	-	3,306
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other financial assets	481	123	-	-	-	-	604
<b>Total undiscounted financial assets</b>	<b>14,747</b>	<b>1,430</b>	<b>1,046</b>	<b>2,972</b>	<b>5,629</b>	<b>694</b>	<b>26,518</b>
<b>Liabilities</b>							
Due to other financial institutions	759	43	78	7	-	-	887
Deposits at fair value	20	-	-	-	-	-	20
Deposits at amortised cost	2,030	1,491	416	178	58	-	4,173
Derivative financial instruments:							
Held for trading	3,065	-	-	-	-	-	3,065
Held for hedging purposes (net settled)	-	14	62	(128)	122	-	70
Held for hedging purposes (gross settled):							
Cash outflow	-	1	2	83	146	-	232
Cash inflow	-	(2)	(1)	(73)	(137)	-	(213)
Other trading liabilities	114	-	-	-	-	-	114
Debt issues	-	-	-	-	-	-	-
Other financial liabilities at fair value	-	89	-	-	-	-	89
Subordinated debentures	732	-	-	-	-	695	1,427
Due to related entities:							
Non-derivative balances	6,820	15	16	48	237	1,131	8,267
Derivative financial instruments:							
Held for trading	2,500	-	-	-	-	-	2,500
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
<b>Total undiscounted financial liabilities</b>	<b>16,040</b>	<b>1,651</b>	<b>573</b>	<b>115</b>	<b>426</b>	<b>1,826</b>	<b>20,631</b>
<b>Total contingent liabilities and commitments</b>							
Direct credit substitutes	-	-	-	-	-	-	-
Housing loan commitment with certain drawdown	-	-	-	-	-	-	-
Transaction related contingent items	-	-	-	-	-	-	-
Short term, self liquidating trade related contingent liabilities	-	-	-	-	-	-	-
Other commitments to provide financial services which have an original maturity of one year or more	3,337	-	-	-	-	-	3,337
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	1,862	-	-	-	-	-	1,862
<b>Total undiscounted contingent liabilities and commitments</b>	<b>5,199</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,199</b>

## Note 42 Concentration of funding

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>Funding consists of</b>						
Due to other financial institutions	416	3,316	870	416	1,309	863
Deposits at fair value	4,284	3,546	3,555	-	-	20
Deposits at amortised cost	31,450	28,343	30,010	3,811	3,828	4,134
Debt issues <sup>1</sup>	11,384	9,747	12,428	-	-	-
Subordinated debentures	688	1,427	1,390	688	1,427	1,390
Due to related entities	8,609	5,918	8,385	11,293	7,204	9,320
<b>Total funding</b>	<b>56,831</b>	<b>52,297</b>	<b>56,638</b>	<b>16,208</b>	<b>13,768</b>	<b>15,727</b>
<b>Analysis of funding by product</b>						
Saving accounts	6,516	6,124	6,421	32	8	-
Certificates of deposits	4,284	3,546	3,555	-	-	20
Demand deposits	6,454	6,475	8,960	2,191	1,877	2,931
Other deposits and borrowings	29,864	25,491	27,057	1,588	1,943	1,203
Subordinated debentures	688	1,427	1,390	688	1,427	1,390
<b>Subtotal</b>	<b>47,806</b>	<b>43,063</b>	<b>47,383</b>	<b>4,499</b>	<b>5,255</b>	<b>5,544</b>
Due to other financial institutions	416	3,316	870	416	1,309	863
Due to related entities	8,609	5,918	8,385	11,293	7,204	9,320
<b>Total funding</b>	<b>56,831</b>	<b>52,297</b>	<b>56,638</b>	<b>16,208</b>	<b>13,768</b>	<b>15,727</b>
<b>Analysis of funding by geographical areas<sup>1</sup></b>						
New Zealand	41,314	38,833	38,913	13,630	10,822	11,619
Australia and Asia-Pacific	3,445	3,233	4,859	1,890	2,247	3,448
United Kingdom and Europe	7,149	4,130	5,212	-	-	-
North America	4,923	6,101	7,654	688	699	660
<b>Total funding</b>	<b>56,831</b>	<b>52,297</b>	<b>56,638</b>	<b>16,208</b>	<b>13,768</b>	<b>15,727</b>
<b>Analysis of funding by industry and economic sector</b>						
Government and other public authorities	2,168	1,832	2,206	556	579	765
Agriculture	1,330	838	1,109	85	44	41
Other primary industries	184	170	312	37	41	167
Commercial and financial	26,278	27,399	27,607	3,300	5,157	4,582
Households	18,262	16,140	17,019	937	743	852
<b>Subtotal</b>	<b>48,222</b>	<b>46,379</b>	<b>48,253</b>	<b>4,915</b>	<b>6,564</b>	<b>6,407</b>
Due to related entities	8,609	5,918	8,385	11,293	7,204	9,320
<b>Total funding</b>	<b>56,831</b>	<b>52,297</b>	<b>56,638</b>	<b>16,208</b>	<b>13,768</b>	<b>15,727</b>

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

## Note 43 Credit risk

Credit risk is the risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the NZ Banking Group. It arises primarily from the NZ Banking Group's lending activities, as well as from transactions.

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

The Board approves major prudential policies and limits that govern large customer exposures, country risk, industry concentration and dealings with related entities. The Board delegates approval authorities to the NZ CEO and the Group Chief Risk Officer, who in turn appoint independent credit officers in each business area. These credit specialists work with line managers to ensure that approved policies are applied appropriately so as to optimise the balance between risk and reward. The Portfolio Risk Review unit provides independent assessment of the quality of the NZ Banking Group's credit portfolio.

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

In applying its Control Principles of Credit, the NZ Banking Group recognises and reflects the differences between markets in the way credit risks are approved and managed:

- **Transaction-managed approach:** For larger customers, the NZ Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the "transaction-managed" approach). Such customers are assigned a customer risk grade ('**CRG**') based on our estimate of their probability of default ('**PD**'). Each facility is assigned a Loss Given Default ('**LGD**') taking into account the realistic distress value of assets over which we hold security and considering the seniority of exposure in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.
- **Program-managed approach:** High-volume customer credit portfolios with homogenous credit risk characteristics are managed on a statistical basis according to predetermined objective criteria (the "program-managed" approach). Quantitative scorecards are used to assign application and behavioural scores to enable risk-based decision making within these portfolios. The scorecard outcomes and decisions are regularly monitored and validated against subsequent customer performance and recalibrated (or rebuilt) when required. For capital estimation (and other purposes), risk-based customer segments are created based on expected probability of default, and downturn LGDs are assigned for each segment based on historic experience and management judgement.

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

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

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

Credit policies with group-wide implications are owned by the Group Risk division of the Overseas Bank ('**Overseas Bank Group Risk**') and approved by the Overseas Banking Group Credit Risk Committee. These policies are administered locally.

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

### Overview of internal credit risk ratings system and relationship between internal and external ratings

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

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

## Note 43 Credit risk (continued)

### Mapping of the NZ Banking Group risk grades

#### *Non-defaulting customers*

Financial Statement Disclosure	The NZ Banking Group CRG	Moody's rating	S&P rating
Investment Grade	A	Aaa – Aa3	AAA – AA-
	B	A1 – A3	A+ – A-
	C	Baa1 – Baa3	BBB+ – BBB-
Standard	D	Ba1 – B1	BB+ – B+

#### *Non-defaulting customers watchlist*

Financial Statement Disclosure	The NZ Banking Group CRG	Definition
Standard	E	Watchlist
	F	Special Mention

#### *Defaulting customers*

Financial Statement Disclosure	The NZ Banking Group CRG	Definition
Sub-standard	G – H	Default
	I	Loss

The retail (program-managed) portfolio is segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristic(s) of default.

The retail portfolio is divided into over multiple segments. Each segment is assigned a quantified measure of its probability of default, LGD and exposure at default ('EAD').

#### **Use of internal credit risk estimates**

The credit risk estimates are used for the following purposes:

##### ***Economic capital***

The NZ Banking Group allocates economic capital to all exposures. Economic capital includes both credit and non-credit components. Economic credit capital is allocated using a framework that considers estimates of PD, LGD, EAD, Total Committed Exposure and loan tenor.

##### ***Pricing***

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

##### ***Provisioning***

Loan loss provisions are reserves held by the NZ Banking Group to cover credit losses that are incurred in the loan portfolio. These provisions use the risk grading framework and PD, LGD and EADs assigned to each customer as the basis for the calculation. These estimates are then adjusted for the specific requirements of the NZ IFRS accounting standards.

##### ***Portfolio management***

The Risk Rating System is a key input into the portfolio management processes as it provides a measure of overall risk at the portfolio, customer, facility or pool level.

##### ***Credit approval authorities***

For Transaction Managed facilities the approval authorities are allocated based on the CRG with lower limits applicable for lower graded customers.

##### ***Risk-adjusted performance measurement***

Business unit performance is measured using an economic profit framework which uses the allocated economic equity to measure the return earned.

##### ***Control mechanisms for the credit risk rating system***

The NZ Banking Group's Risk Rating System is reviewed annually to ensure the rating criteria and procedures are applicable to the current portfolio and external conditions. The annual review of the Credit Risk Rating Framework is approved by the Group BRMC.

To ensure the risk rating system is applied consistently across the NZ Banking Group, the NZ Banking Group's Portfolio Risk Review team independently evaluates the portfolio performance and the adherence to credit risk policies, procedures and reporting across Business Units. The assessment involves reviewing the accuracy of risk grades, delinquency profile, actual loss performance, the quality of management information available and the adequacy of provisioning.

## Note 43 Credit risk (continued)

Every model used in the risk rating process is validated at least annually by the Overseas Banking Group's Model Risk Review team who undertake an end-to-end technical and operational review of all models to ensure they are fit for purpose.

Specific credit risk estimates (including PD, LGD and EAD levels) are overseen and approved by a subcommittee of the Overseas Banking Group Credit Risk Committee. These estimates are reviewed annually.

### Regulatory capital

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

### Description of internal ratings process, by portfolio

#### a) Transaction managed asset class approach (including corporate, sovereign, banking and specialised)

##### Types of exposure included in the portfolio

Corporate, sovereign and banking exposures include:

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

All of the above exposure categories also apply to Specialised Lending, which in the NZ Banking Group comprises Property Finance (Income Producing Real Estate).

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

#### i) Probability of Default

The PD represents the likelihood of a customer defaulting on its financial obligations within one year. PDs represent a long-run estimate and are built and validated on internal and external comparable historical data, informed by management judgement.

#### ii) Loss Given Default

The LGD represents the expected severity of a loss to the NZ Banking Group should a customer default occur. The evaluation of an LGD for each credit facility takes into account the value of assets to which the NZ Banking Group has recourse and over which it has security. It also reflects the seniority of exposure in the capital and debt structure of company customers.

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

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

#### iii) Exposure at Default

An EAD is calculated as being equal to the total committed exposure regardless of the actual outstanding balance. This reflects the likelihood that undrawn limits may be fully utilised as customers approach default.

#### b) Retail asset class approach (including residential mortgages, qualifying revolving retail and other retail)

##### Types of exposure included in the portfolio

Retail asset classes are split into the following categories of products:

Asset sub-classes	Product categories
<b>Consumer Retail</b>	<ul style="list-style-type: none"> <li>■ Mortgages</li> <li>■ Credit cards</li> <li>■ Personal loans</li> <li>■ Overdrafts</li> </ul>
<b>Small Business</b>	<ul style="list-style-type: none"> <li>■ Equipment finance</li> <li>■ Business overdrafts</li> <li>■ Business term loans</li> <li>■ Business credit cards</li> </ul>

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

#### i) General

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

## Note 43 Credit risk (continued)

### *ii) Probability of Default*

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

There are a range of models that are used to help determine / establish the appropriate internal rating for the program-managed portfolios.

### *iii) Loss Given Default*

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

### *iv) Exposure at Default*

EAD is calculated based on analysis of historical data. The outstanding balance of defaulted customers at the time of default less any repayments that the client makes are calculated for each account and summed up at the pool level.

## **Credit risk mitigation and limit control**

NZ Banking Group achieves credit risk mitigation in either of the following ways:

### **Risk reduction**

NZ Banking Group reduces credit risk exposure to a customer by either:

- collateralisation where the exposure is secured by eligible financial collateral or protection is bought via Credit Linked Notes, provided the proceeds are invested in eligible financial collateral; or
- formal set-off arrangements.

### **Risk transfer**

NZ Banking Group transfers credit risk exposure from a customer to an unrelated entity by:

- credit substitution (use of guarantees and standby Letters of Credit, or similar instruments) where NZ Banking Group has direct recourse to a third party on default or non-payment by the customer; or
- credit protection bought via credit default swaps where NZ Banking Group is entitled to recover either full principal or credit losses on occurrence of defined credit events.

The credit risk of the mitigation provider may not in any way directly or indirectly related to the borrower.

## **Collateral valuation and management**

NZ Banking Group uses a qualitative scale to record the quality of the security taken over exposure to business. This is referred to as the security quality index ('SQI'). The SQI is applied in determining the LGD.

NZ Banking Group revalues all financial markets and associated collateral positions on a daily basis to monitor the net risk position, and has formal processes in place to ensure calls for collateral top-up or exposure reduction are made promptly. The Collateral Management unit and the Financial Markets Credit Risk team has responsibility for monitoring those positions. Collateral securing direct and contingent credit exposures is monitored and revalued less frequently by the originating business unit.

### **Types of collateral taken**

NZ Banking Group recognises the following as eligible collateral for credit risk mitigation by way of risk substitution:

- cash;
- deposits;
- securities issued by other entities with a minimum risk grade equivalent of A3/A-; and
- credit-linked notes, provided the proceeds are invested in cash or other eligible collateral described above.

### **Guarantor/credit derivative counterparties**

For mitigation by risk transfer, NZ Banking Group only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities provided they are not related to the underlying obligor:

- sovereign entities, public sector entities, banks or securities firms; and
- other entities with a minimum risk grade equivalent of A3/A-.

## **Market and/or credit risk concentrations**

All exposures to risk transfer counterparties are separately approved under NZ Banking Group's usual credit approval process with the amount and tenor of mitigation recorded against the counterparty in NZ Banking Group's exposure management systems. The credit quality of mitigation providers is reviewed regularly in accordance with NZ Banking Group's usual periodic review processes.

Market risks arising from credit risk mitigation activities are managed similarly to market risks arising from any other trading activities. These risks are managed under either the market risk banking book or trading book frameworks as appropriate.

The banking book is managed by credit limits to restrict credit exposure. Net interest positions are managed within the banking book market risk framework by Value at Risk ('VaR') and structural risk limits. The structural risk limits limit the size of market risk exposure that can be taken on any part of the yield curve.

## Note 43 Credit risk (continued)

On the trading side, market risk flowing from credit risk mitigation deals is combined with the underlying market risk and assessed against structural (and VaR) risk limits. The structural risk limits include volume, basis point, 'greeks' (and other) limits to avoid undue concentration of market risk. These are set and overseen by the independent market risk unit. The structural risk limits are set taking into account business strategy, trader experience and market liquidity.

### **Foreign exchange and derivative credit risk management**

Foreign exchange and derivative activities expose the NZ Banking Group to pre-settlement and settlement risk. A real-time global limits system is used to record exposure against limits for these risk types. Pre-settlement risk is the risk that the counterparty to a contract defaults prior to settlement when the value of the contract is positive. Both the current replacement cost and the potential future credit risk are taken into consideration in the assessment of pre-settlement risk. 'Close out' netting is used to reduce gross credit exposures for counterparties where legally enforceable netting agreements are in place. In a close out netting situation the positive and negative mark-to-market value of all eligible foreign exchange and derivative contracts with the same counterparty, are netted in the event of default and regardless of maturity.

### **Risk weighted exposures**

The risk weighted exposures are derived in accordance with the Reserve Bank's Capital Adequacy Framework (the '**Framework**') as required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008.

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.

Securitised mortgages in non-consolidated entities are excluded from the balance sheet, but 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.

## Note 43 Credit risk (continued)

### Calculation of on-balance sheet exposures

NZ Banking Group 31 March 2008 – Unaudited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,368	0%	-
Long term claims on government	61	10%	6
Claims on banks	2,593	20%	519
Claims on public sector entities	284	20%	57
Residential mortgages	30,511	50%	15,256
Other assets	23,906	100%	23,906
Non-risk weighted assets	6,163		
<b>Total on-balance sheet exposures</b>	<b>64,886</b>		<b>39,744</b>

### Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	677	50%	339
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>677</b>		<b>339</b>

### 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
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	296	100%	296	81%	240
<b>Total direct credit substitutes</b>	<b>296</b>		<b>296</b>		<b>240</b>
<b>Commitments</b>					
Commitments with certain drawdown	58	100%	58	20%	12
Housing loan commitments with certain drawdown	184	100%	184	50%	92
Transaction related contingent items	691	50%	346	91%	314
Short term, self liquidating trade related contingent liabilities	789	20%	158	100%	158
Other commitments to provide financial services which have an original maturity of one year or more	8,422	50%	4,211	71%	2,990
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,660	0%	-	0%	-
<b>Total commitments</b>	<b>16,804</b>		<b>4,957</b>		<b>3,566</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	68,740		1,532	50%	766
Swaps	30,472		1,621	25%	405
Interest rate contracts:					
Forwards	7,161		2	50%	1
Futures	23,439		-	0%	-
Options	6,122		15	47%	7
Swaps	227,946		2,305	27%	622
<b>Total market related contracts (derivatives)</b>	<b>363,880</b>		<b>5,475</b>		<b>1,801</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>380,980</b>		<b>10,728</b>		<b>5,607</b>
<b>Total risk weighted exposures</b>					<b>45,690</b>



Note 43 Credit risk (continued)

*Calculation of on-balance sheet exposures*

<b>NZ Banking Group</b>			
31 March 2007 – Unaudited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	901	0%	-
Long term claims on government	2	10%	-
Claims on banks	5,073	20%	1,015
Claims on public sector entities	226	20%	45
Residential mortgages	27,263	50%	13,632
Other assets	20,760	100%	20,760
Non-risk weighted assets	4,711		
<b>Total on-balance sheet exposures</b>	<b>58,936</b>		<b>35,452</b>

*Calculation of off-balance sheet securitised mortgage exposures*

Securitised mortgages	608	50%	304
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>608</b>		<b>304</b>

*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
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	282	100%	282	80%	226
<b>Total direct credit substitutes</b>	<b>282</b>		<b>282</b>		<b>226</b>
<b>Commitments</b>					
Commitments with certain drawdown	37	100%	37	20%	7
Housing loan commitments with certain drawdown	162	100%	162	50%	81
Transaction related contingent items	680	50%	340	91%	311
Short term, self liquidating trade related contingent liabilities	686	20%	137	100%	137
Other commitments to provide financial services which have an original maturity of one year or more	7,690	50%	3,845	67%	2,576
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,306	0%	-	0%	-
<b>Total commitments</b>	<b>15,561</b>		<b>4,521</b>		<b>3,112</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	55,968		1,520	50%	760
Swaps	37,482		1,539	26%	401
Interest rate contracts:					
Forwards	13,698		5	40%	2
Futures	12,358		-	0%	-
Options	5,546		7	57%	4
Swaps	217,075		1,859	28%	528
<b>Total market related contracts (derivatives)</b>	<b>342,127</b>		<b>4,930</b>		<b>1,695</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>357,970</b>		<b>9,733</b>		<b>5,033</b>
<b>Total risk weighted exposures</b>					<b>40,789</b>

## Note 43 Credit risk (continued)

### Calculation of on-balance sheet exposures

<b>NZ Banking Group</b>			
30 September 2007 – Audited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,645	0%	-
Long term claims on government	65	10%	7
Claims on banks	4,111	20%	822
Claims on public sector entities	249	20%	50
Residential mortgages	29,019	50%	14,510
Other assets	22,486	100%	22,486
Non-risk weighted assets	7,132		
<b>Total on-balance sheet exposures</b>	<b>64,707</b>		<b>37,875</b>

### Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	608	50%	304
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>608</b>		<b>304</b>

### 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
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	273	100%	273	79%	216
<b>Total direct credit substitutes</b>	<b>273</b>		<b>273</b>		<b>216</b>
<b>Commitments</b>					
Commitments with certain drawdown	36	100%	36	20%	7
Housing loan commitments with certain drawdown	186	100%	186	50%	93
Transaction related contingent items	695	50%	348	90%	313
Short term, self liquidating trade related contingent liabilities	793	20%	159	100%	159
Other commitments to provide financial services which have an original maturity of one year or more	8,116	50%	4,058	67%	2,719
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,391	0%	-	0%	-
<b>Total commitments</b>	<b>16,217</b>		<b>4,787</b>		<b>3,291</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	71,941		2,187	50%	1,094
Swaps	28,661		1,750	26%	460
Interest rate contracts:					
Forwards	13,665		3	67%	2
Futures	11,625		-	0%	-
Options	7,492		17	47%	8
Swaps	205,850		2,165	29%	635
<b>Total market related contracts (derivatives)</b>	<b>339,234</b>		<b>6,122</b>		<b>2,199</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>355,724</b>		<b>11,182</b>		<b>5,706</b>
<b>Total risk weighted exposures</b>					<b>43,885</b>

Note 43 Credit risk (continued)

*Calculation of on-balance sheet exposures*

NZ Branch					
31 March 2008 – Unaudited					
	Principal Amount \$m		Risk Weighting	Risk Weighted Exposure \$m	
Cash and short term claims on government	1,211		0%	-	
Long term claims on government	61		10%	6	
Claims on banks	741		20%	148	
Claims on public sector entities	174		20%	35	
Residential mortgages	-		50%	-	
Other assets	13,579		100%	13,579	
Non-risk weighted assets	5,198				
<b>Total on-balance sheet exposures</b>	<b>20,964</b>			<b>13,768</b>	
<i>Calculation of off-balance sheet securitised mortgage exposures</i>					
Securitised mortgages	-		50%	-	
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>-</b>			<b>-</b>	
<i>Calculation of off-balance sheet and derivative exposures</i>					
	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	243	100%	243	77%	187
<b>Total direct credit substitutes</b>	<b>243</b>		<b>243</b>		<b>187</b>
<b>Commitments</b>					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	410	50%	205	85%	174
Short term, self liquidating trade related contingent liabilities	80	20%	16	100%	16
Other commitments to provide financial services which have an original maturity of one year or more	3,229	50%	1,615	93%	1,501
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,082	0%	-	0%	-
<b>Total commitments</b>	<b>5,801</b>		<b>1,836</b>		<b>1,691</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	68,740		1,532	50%	766
Swaps	40,477		1,928	24%	463
Interest rate contracts:					
Forwards	7,161		2	50%	1
Futures	23,439		-	0%	-
Options	6,122		15	47%	7
Swaps	250,205		2,547	27%	688
<b>Total market related contracts (derivatives)</b>	<b>396,144</b>		<b>6,024</b>		<b>1,925</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>402,188</b>		<b>8,103</b>		<b>3,803</b>
<b>Total risk weighted exposures</b>					<b>17,571</b>

## Note 43 Credit risk (continued)

### Calculation of on-balance sheet exposures

<b>NZ Branch</b>					
31 March 2007 – Unaudited					
	Principal Amount \$m		Risk Weighting		Risk Weighted Exposure \$m
Cash and short term claims on government	818		0%		-
Long term claims on government	2		10%		-
Claims on banks	1,484		20%		297
Claims on public sector entities	226		20%		45
Residential mortgages	-		50%		-
Other assets	12,476		100%		12,476
Non-risk weighted assets	3,910				
<b>Total on-balance sheet exposures</b>	<b>18,916</b>				<b>12,818</b>
<b>Calculation of off-balance sheet securitised mortgage exposures</b>					
Securitised mortgages	-		50%		-
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>-</b>				<b>-</b>
<b>Calculation of off-balance sheet and derivative exposures</b>					
	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	224	100%	224	80%	179
<b>Total direct credit substitutes</b>	<b>224</b>		<b>224</b>		<b>179</b>
<b>Commitments</b>					
Commitments with certain drawdown	2,000	100%	2,000	100%	2,000
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	425	50%	213	90%	192
Short term, self liquidating trade related contingent liabilities	89	20%	18	100%	18
Other commitments to provide financial services which have an original maturity of one year or more	2,838	50%	1,419	65%	921
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	1,983	0%	-	0%	-
<b>Total commitments</b>	<b>7,335</b>		<b>3,650</b>		<b>3,131</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	55,968		1,520	50%	760
Swaps	31,360		1,477	26%	388
Interest rate contracts:					
Forwards	13,698		5	40%	2
Futures	12,358		-	0%	-
Options	5,546		7	57%	4
Swaps	199,934		1,643	29%	478
<b>Total market related contracts (derivatives)</b>	<b>318,864</b>		<b>4,652</b>		<b>1,632</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>326,423</b>		<b>8,526</b>		<b>4,942</b>
<b>Total risk weighted exposures</b>					<b>17,760</b>

Note 43 Credit risk (continued)

*Calculation of on-balance sheet exposures*

<b>NZ Branch</b>			
30 September 2007 – Audited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,558	0%	-
Long term claims on government	8	10%	1
Claims on banks	1,235	20%	247
Claims on public sector entities	133	20%	27
Residential mortgages	-	50%	-
Other assets	12,710	100%	12,710
Non-risk weighted assets	6,257		
<b>Total on-balance sheet exposures</b>	<b>21,901</b>		<b>12,985</b>

*Calculation of off-balance sheet securitised mortgage exposures*

Securitised mortgages	-	50%	-
<b>Total off-balance sheet securitised mortgage exposures</b>	<b>-</b>		<b>-</b>

*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
<b>Direct credit substitutes</b>					
Standby letters of credit and financial guarantees	211	100%	211	73%	154
<b>Total direct credit substitutes</b>	<b>211</b>		<b>211</b>		<b>154</b>
<b>Commitments</b>					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	413	50%	207	84%	173
Short term, self liquidating trade related contingent liabilities	107	20%	21	100%	21
Other commitments to provide financial services which have an original maturity of one year or more	3,337	50%	1,669	89%	1,485
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	1,862	0%	-	0%	-
<b>Total commitments</b>	<b>5,719</b>		<b>1,897</b>		<b>1,679</b>
<b>Market related contracts (derivatives)</b>					
Foreign exchange contracts:					
Forwards	71,941		2,187	50%	1,094
Swaps	39,620		2,082	25%	527
Interest rate contracts:					
Forwards	13,665		3	67%	2
Futures	11,625		-	0%	-
Options	7,492		17	47%	8
Swaps	226,993		2,467	28%	702
<b>Total market related contracts (derivatives)</b>	<b>371,336</b>		<b>6,756</b>		<b>2,333</b>
<b>Total off-balance sheet and derivative exposures</b>	<b>377,266</b>		<b>8,864</b>		<b>4,166</b>
<b>Total risk weighted exposures</b>					<b>17,151</b>

**Additional mortgage information**

The information below relates to the loan-to-value ratios reflected in the capital calculation.

**NZ Banking Group – Residential mortgages by loan-to-value ratio for the six months ended 31 March 2008**

Loan-to-value range	0-80%	80-90%	Over 90%
Value of exposures	<b>22,459</b>	<b>6,468</b>	<b>1,584</b>

## Note 44 Credit quality

For the purpose of the NZ Banking Group and the NZ Branch's disclosure regarding credit quality, its financial assets has been analysed as follows:

### Analysis by class

<b>NZ Banking Group</b>						
<b>31 March 2008 – Unaudited</b>						
	<b>Neither Past Due nor Impaired \$m</b>	<b>Past Due but not Impaired \$m</b>	<b>Impaired \$m</b>	<b>Total \$m</b>	<b>Impairment Allowance \$m</b>	<b>Total Carrying Value \$m</b>
Housing	28,688	1,713	110	30,511	48	30,463
Retail Other	1,438	210	-	1,648	60	1,588
Corporate	20,660	669	31	21,360	136	21,224
<b>Total</b>	<b>50,786</b>	<b>2,592</b>	<b>141</b>	<b>53,519</b>	<b>244</b>	<b>53,275</b>

<b>NZ Banking Group</b>						
<b>31 March 2007 – Unaudited</b>						
	<b>Neither Past Due nor Impaired \$m</b>	<b>Past Due but not Impaired \$m</b>	<b>Impaired \$m</b>	<b>Total \$m</b>	<b>Impairment Allowance \$m</b>	<b>Total Carrying Value \$m</b>
Housing	24,747	2,472	44	27,263	25	27,238
Retail Other	1,316	181	-	1,497	50	1,447
Corporate	17,754	480	21	18,255	116	18,139
<b>Total</b>	<b>43,817</b>	<b>3,133</b>	<b>65</b>	<b>47,015</b>	<b>191</b>	<b>46,824</b>

<b>NZ Banking Group</b>						
<b>30 September 2007 – Unaudited</b>						
	<b>Neither Past Due nor Impaired \$m</b>	<b>Past Due but not Impaired \$m</b>	<b>Impaired \$m</b>	<b>Total \$m</b>	<b>Impairment Allowance \$m</b>	<b>Total Carrying Value \$m</b>
Housing	26,296	2,644	79	29,019	35	28,984
Retail Other	1,366	169	-	1,535	49	1,486
Corporate	19,338	640	39	20,017	130	19,887
<b>Total</b>	<b>47,000</b>	<b>3,453</b>	<b>118</b>	<b>50,571</b>	<b>214</b>	<b>50,357</b>

<b>NZ Branch</b>						
<b>31 March 2008 – Unaudited</b>						
	<b>Neither Past Due nor Impaired \$m</b>	<b>Past Due but not Impaired \$m</b>	<b>Impaired \$m</b>	<b>Total \$m</b>	<b>Impairment Allowance \$m</b>	<b>Total Carrying Value \$m</b>
Housing	-	-	-	-	-	-
Retail Other	-	-	-	-	-	-
Corporate	8,280	-	-	8,280	17	8,263
<b>Total</b>	<b>8,280</b>	<b>-</b>	<b>-</b>	<b>8,280</b>	<b>17</b>	<b>8,263</b>

<b>NZ Branch</b>						
<b>31 March 2007 – Unaudited</b>						
	<b>Neither Past Due nor Impaired \$m</b>	<b>Past Due but not Impaired \$m</b>	<b>Impaired \$m</b>	<b>Total \$m</b>	<b>Impairment Allowance \$m</b>	<b>Total Carrying Value \$m</b>
Housing	-	-	-	-	-	-
Retail Other	-	-	-	-	-	-
Corporate	6,615	-	-	6,615	12	6,603
<b>Total</b>	<b>6,615</b>	<b>-</b>	<b>-</b>	<b>6,615</b>	<b>12</b>	<b>6,603</b>

# Notes to the financial statements

## Note 44 Credit quality (continued)

	<b>NZ Branch</b>					
	30 September 2007 – Unaudited					
	Neither Past Due nor Impaired \$m	Past Due but not Impaired \$m	Impaired \$m	Total \$m	Impairment Allowance \$m	Total Carrying Value \$m
Housing	-	-	-	-	-	-
Retail Other	-	-	-	-	-	-
Corporate	7,597	-	-	7,597	14	7,583
<b>Total</b>	7,597	-	-	7,597	14	7,583

### Analysis by investment grade

	<b>NZ Banking Group</b>			<b>NZ Branch</b>		
	31 March 2008 – Unaudited			31 March 2008 – Unaudited		
	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m
Housing	-	28,688	-	-	-	-
Retail Other	-	1,438	-	-	-	-
Corporate	10,183	10,126	351	8,280	-	-
<b>Total</b>	10,183	40,252	351	8,280	-	-

	<b>NZ Banking Group</b>			<b>NZ Branch</b>		
	31 March 2007 – Unaudited			31 March 2007 – Unaudited		
	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m
Housing	-	24,747	-	-	-	-
Retail Other	-	1,316	-	-	-	-
Corporate	8,544	8,948	262	6,615	-	-
<b>Total</b>	8,544	35,011	262	6,615	-	-

	<b>NZ Banking Group</b>			<b>NZ Branch</b>		
	30 September 2007 – Unaudited			30 September 2007 – Unaudited		
	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m	Investment Grade \$m	Standard Grade \$m	Sub-standard Grade \$m
Housing	-	26,296	-	-	-	-
Retail Other	-	1,366	-	-	-	-
Corporate	9,590	9,407	341	7,597	-	-
<b>Total</b>	9,590	37,069	341	7,597	-	-

The above analysis excludes past due and impaired assets.

## Note 45 Concentration of credit exposures

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
<b>On-balance sheet credit exposures consists of</b>						
Cash and balances with central banks	1,016	485	1,387	877	418	1,283
Due from other financial institutions	487	1,649	591	-	1,077	57
Derivative financial instruments	2,573	1,891	2,945	2,573	1,891	2,945
Other trading securities	2,490	2,060	3,908	1,134	1,059	1,525
Other financial assets designated at fair value	-	1,550	-	-	-	-
Available-for-sale securities	39	466	-	-	-	-
Loans	53,275	46,824	50,357	8,263	6,603	7,583
Life insurance assets	97	81	81	-	-	-
Due from related entities	3,234	2,426	3,722	7,584	7,476	7,902
Investment in associate	48	-	-	-	-	-
Other assets	764	651	815	520	383	603
<b>Total on-balance sheet credit exposures</b>	<b>64,023</b>	<b>58,083</b>	<b>63,806</b>	<b>20,951</b>	<b>18,907</b>	<b>21,898</b>
<b>Analysis of on-balance sheet credit exposures by geographical areas</b>						
Within New Zealand	60,098	54,747	59,071	17,218	15,569	18,300
Australia and Asia-Pacific	3,809	3,210	4,609	3,733	3,212	3,598
United Kingdom and Europe	116	126	126	-	126	-
<b>Total on-balance sheet credit exposures</b>	<b>64,023</b>	<b>58,083</b>	<b>63,806</b>	<b>20,951</b>	<b>18,907</b>	<b>21,898</b>
<b>Analysis of on-balance sheet credit exposures by industry and economic sector</b>						
Government and other public authorities	1,941	1,142	2,162	1,385	739	1,681
Agriculture	4,219	3,693	3,983	615	562	717
Other primary industries	702	669	690	489	465	480
Commercial and financial	19,351	19,855	20,686	10,319	9,312	10,541
Real estate – construction	466	410	430	127	99	109
Real estate – mortgage	30,511	27,263	29,019	-	-	-
Instalment loans and other personal lending	3,255	2,391	2,790	-	-	-
<b>Subtotal</b>	<b>60,445</b>	<b>55,423</b>	<b>59,760</b>	<b>12,935</b>	<b>11,177</b>	<b>13,528</b>
Provisions for impairment on loans	(244)	(191)	(214)	(17)	(12)	(14)
Due from related entities	3,234	2,426	3,722	7,584	7,476	7,902
Investment in associate	48	-	-	-	-	-
Other assets	540	425	538	449	266	482
<b>Total on-balance sheet credit exposures</b>	<b>64,023</b>	<b>58,083</b>	<b>63,806</b>	<b>20,951</b>	<b>18,907</b>	<b>21,898</b>
<b>Off-balance sheet credit and derivative exposures by credit equivalent consists of</b>						
Contingent liabilities and commitments	5,253	4,803	5,060	2,079	3,874	2,108
Derivatives	5,475	4,930	6,122	6,024	4,652	6,756
<b>Total off-balance sheet credit and derivative exposures by credit equivalent</b>	<b>10,728</b>	<b>9,733</b>	<b>11,182</b>	<b>8,103</b>	<b>8,526</b>	<b>8,864</b>
<b>Analysis of off-balance sheet credit exposures by industry and economic sector</b>						
Government and other public authorities	270	253	280	217	218	230
Agriculture	147	55	79	52	24	53
Other primary industries	80	31	107	78	31	69
Commercial and financial	7,701	6,843	8,474	7,643	8,139	8,372
Real estate – construction	149	142	165	113	114	140
Real estate – mortgage	2,338	2,367	2,035	-	-	-
Instalment loans and other personal lending	43	42	42	-	-	-
<b>Total off-balance sheet credit and derivative exposures by credit equivalent</b>	<b>10,728</b>	<b>9,733</b>	<b>11,182</b>	<b>8,103</b>	<b>8,526</b>	<b>8,864</b>

Credit exposure is determined with reference to actual credit exposures.

Australian and New Zealand Standard Industrial Classification ('ANZSIC') have been used as the basis for disclosing industry sectors.



Note 45 Concentration of credit exposures (continued)

**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.

	Peak End-of-Day for the Three Months		Peak End-of-Day for the Three Months		Peak End-of-Day for the Three Months	
	As at 31 March 2008	Ended 31 March 2008	As at 31 March 2007	Ended 31 March 2007	As at 30 September 2007	Ended 30 September 2007
<b>10 - 20% of Overseas Banking Group's equity</b>	<b>Unaudited</b>	<b>Unaudited</b>	Unaudited	Unaudited	Audited	Audited
<b>Individual counterparties</b>						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-
<b>Closely related counterparties</b>						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-

Peak end-of-day exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant period, and then dividing that amount by the Overseas Banking Group's equity as at end of the relevant period. 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 the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the 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.

	As at 31 March 2008 Unaudited		As at 31 March 2007 Unaudited		As at 30 September 2007 Audited	
	Aggregate Credit Exposures \$m	Percentage of Large Exposures %	Aggregate Credit Exposures \$m	Percentage of Large Exposures %	Aggregate Credit Exposures \$m	Percentage of Large Exposures %
<b>10 - 20% of Overseas Banking Group's equity</b>						
<b>Individual counterparties</b>						
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	-	-	-	-	-	-
<b>Closely related counterparties</b>						
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	-	-	-	-	-	-

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 46 Market risk

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

- foreign exchange rate risk results from exposure to changes in spot prices, forward prices and volatilities of currency rates;
- interest rate risk primarily results from exposures to the change in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment activity and credit spreads;
- commodity price risk results from exposures to changes in spot prices, forward prices and volatilities of commodities; and
- equity price risk results from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.

The management of market risk arising from financial markets trading books (the subject of the notes below) and the market risks arising from the NZ Banking Group's other banking activities are segregated.

### Trading activities

Trading activities include financial markets activities and are controlled by a Board approved market risk framework that incorporates Board-approved VaR limits. Market risk is managed using VaR and structural limits in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate Trading Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

### Daily VaR

VaR is the potential loss in value of the NZ Banking Group's trading positions due to adverse market movements over a defined time horizon with a specified confidence interval. The NZ Banking Group uses a one-day time horizon and a 99% confidence interval for its VaR model. This means that there is a 1 in 100 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once every 100 days. The historical simulation method is used to calculate VaR taking into account all material market risk factors. Actual profit or loss outcomes are back-tested to VaR on a daily basis, which monitors the quality of the VaR model. VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. Therefore, the use of structural risk reporting and stress testing both act as compliments to further capture extreme events and local market risk exposures.

### Other banking activities

The Group MARCO establishes policies regarding structural balance sheet interest rate risk, foreign exchange rate risk and liquidity risk. These risks arise principally from mismatches, which occur between the cash flows or repricing profiles of the various portfolios of loans, investments, deposits and other obligations.

### Non-trading risk

#### **Management of structural interest rate risk**

Treasury manages the sensitivity of the NZ Banking Group's net interest income to changes in wholesale market interest rates. This sensitivity arises from lending and deposit-taking activity in the normal course of business in and through the investment of capital and other non-interest bearing liabilities. Treasury's risk management objective is to help ensure the reasonable stability of net interest income over time. These activities are performed under the oversight of the New Zealand Board Risk Committee, the Overseas Banking Group's Market Risk Management unit, Group Treasury and Group MARCO.

Net interest income sensitivity is managed in terms of the net interest income at risk modelled over a three-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed covers all on and off-balance sheet accrual accounted assets and liabilities in New Zealand. It excludes the interest rate risk within its trading operation that is managed under a VaR framework.

A simulation model is used to calculate the potential net interest income at risk. The net interest income simulation framework combines underlying balance sheet data with:

- assumptions about run off and new business;
- expected repricing behaviour; and
- changes in wholesale market interest rates.

Simulations of a range of interest rate scenarios are used to provide a series of potential future net interest income outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves in New Zealand. More stressed interest rate scenarios are also considered and modelled. A comparison between the net interest income outcomes from these modelled scenarios indicates the NZ Banking Group's sensitivity to interest rate changes. Both on and off-balance sheet instruments are then used to achieve stability in net interest income.

The net interest income simulation and limit frameworks are reviewed and approved annually by the Group BRMC. This ensures that key model inputs and risk parameters remain relevant and that net interest income at risk to interest rate movements and limits governing these activities remain consistent with the desired risk and reward criterion.

Note 46 Market risk (continued)

**Structural foreign exchange risk**

The NZ Banking Group operates a United Kingdom branch of WestpacTrust Securities NZ Limited that gives rise to an immaterial amount of structural foreign exchange rate risk from translating foreign currency earnings and net assets into New Zealand dollars for consolidation into the financial statements.

**Equity risk**

Equity risk is the risk of loss arising from changes in the price of equity investments held by the NZ Banking Group.

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2 A).

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 31 March 2008 (31 March 2007 for comparatives).

For each category of market risk, the peak end-of-day notional capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2 A).

For each category of market risk, the peak end-of-day notional capital charge as a percentage of the Overseas Banking Group's equity is the peak end-of-day notional capital charge for that category of market risk divided by the Overseas Banking Group's equity as at 31 March 2008.

	Peak End-of-Day For the Three Months Ended		Peak End-of-Day For the Three Months Ended	
	As at 31 March 2008 Unaudited \$m	31 March 2008 Unaudited \$m	As at 31 March 2007 Unaudited \$m	31 March 2007 Unaudited \$m
Aggregate interest rate exposure	265	265	391	686
As a percentage of the Overseas Banking Group's equity	1.20%	1.20%	2.05%	3.60%
Aggregate foreign currency exposure	2	3	4	4
As a percentage of the Overseas Banking Group's equity	0.01%	0.01%	0.02%	0.02%
Aggregate equity risk exposure	2	4	-	-
As a percentage of the Overseas Banking Group's equity	0.01%	0.02%	-	-

**Market risk notional capital charges**

The following table provides a summary of notional capital charges by risk type for the NZ Banking Group as at 31 March 2008:

	Implied Risk Weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a % of Overseas Banking Group's Equity
<b>End-of-period</b>			
Interest risk	3,313	265	1.20%
Foreign currency risk	25	2	0.01%
Equity risk	25	2	0.01%
<b>Peak end-of-day</b>			
Interest risk	3,313	265	1.20%
Foreign currency risk	38	3	0.01%
Equity risk	50	4	0.02%

**Value at Risk**

The following table provides a summary of VaR by risk type for the NZ Banking Group and the NZ Branch's trading and non-trading activities, as at the end of the following reporting period:

**Trading**

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
Interest rate risk	2.0	0.8	0.7	2.0	0.8	0.7
Foreign currency risk	0.6	0.3	0.0	0.6	0.3	0.0
Price risk	0.0	0.0	0.0	0.0	0.0	0.0
Volatility risk	0.3	0.0	0.2	0.3	0.0	0.2
Net market risk	2.5	0.8	0.7	2.5	0.8	0.7

## Note 46 Market risk (continued)

### Non-trading

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	Interest rate risk	0.6	0.4	0.2	1.5	0.4

## Note 47 Interest rate risk

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

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the Group's net asset position as at 31 March 2008. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in Note 46.

	NZ Banking Group										Weighted Average Interest Rate % <sup>1</sup>
	31 March 2008 - Unaudited										
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest bearing \$m	Total \$m	
<b>Financial assets</b>											
Cash and balances with central banks	879	-	-	-	-	-	-	-	137	1,016	8.3
Due from other financial institutions	487	-	-	-	-	-	-	-	-	487	8.3
Derivative financial instruments	-	-	-	-	-	-	-	-	2,573	2,573	0.0
Other trading securities	2,490	-	-	-	-	-	-	-	-	2,490	8.4
Other financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	0.0
Available-for-sale securities	-	-	-	-	-	-	-	-	39	39	0.0
Loans	19,924	6,376	8,754	8,238	5,342	3,011	1,799	75	(244)	53,275	9.4
Life insurance assets	-	-	-	-	-	-	-	-	97	97	0.0
Due from related entities	-	-	-	-	-	-	-	-	3,234	3,234	0.0
Investment in associate	-	-	-	-	-	48	-	-	-	48	8.8
Other financial assets	442	-	-	-	-	-	-	-	322	764	8.3
<b>Total financial assets</b>	<b>24,222</b>	<b>6,376</b>	<b>8,754</b>	<b>8,238</b>	<b>5,342</b>	<b>3,059</b>	<b>1,799</b>	<b>75</b>	<b>6,158</b>	<b>64,023</b>	
Non-financial assets										863	
<b>Total assets</b>										<b>64,886</b>	
<b>Financial liabilities</b>											
Due to other financial institutions	397	-	-	-	-	-	-	-	19	416	8.3
Deposits at fair value	889	1,824	1,566	3	2	-	-	-	-	4,284	8.9
Deposits at amortised cost	18,475	4,855	5,180	472	90	14	20	1	2,343	31,450	6.9
Derivative financial instruments	-	-	-	-	-	-	-	-	2,927	2,927	0.0
Other trading liabilities at fair value	291	-	-	-	-	-	-	-	-	291	8.3
Debt issues	3,701	1,137	3,897	1,976	30	307	286	50	-	11,384	7.3
Other financial liabilities	-	-	-	-	-	-	-	-	697	697	0.0
Subordinated debentures	-	-	-	-	-	-	-	-	688	688	5.3
Due to related entities	6,684	-	-	-	-	48	-	-	1,877	8,609	8.3
<b>Total financial liabilities</b>	<b>30,437</b>	<b>7,816</b>	<b>10,643</b>	<b>2,451</b>	<b>122</b>	<b>369</b>	<b>306</b>	<b>739</b>	<b>7,863</b>	<b>60,746</b>	
Non-financial liabilities										72	
<b>Total liabilities</b>										<b>60,818</b>	
<b>Financial instruments</b>											
Net interest rate contracts (notional):											
Receivable/(payable)	7,890	12,139	(5,828)	(7,341)	(3,635)	(2,000)	(1,210)	(15)	-	-	

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

# Notes to the financial statements

## Note 47 Interest rate risk (continued)

	NZ Banking Group											Weighted Average Interest Rate % <sup>1</sup>
	31 March 2007 – Unaudited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m		
<b>Financial assets</b>												
Cash and balances with central banks	-	-	-	-	-	-	-	-	485	485	0.0	
Due from other financial institutions	1,112	-	-	-	-	-	-	-	537	1,649	7.5	
Derivative financial instruments	-	-	-	-	-	-	-	-	1,891	1,891	7.5	
Other trading securities	2,127	-	-	-	-	-	-	-	(67)	2,060	7.8	
Other financial assets designated at fair value	-	1,550	-	-	-	-	-	-	-	1,550	7.7	
Available-for-sale securities	-	450	-	-	-	-	-	-	16	466	7.5	
Loans	18,293	5,894	6,144	9,056	3,669	1,210	2,615	134	(191)	46,824	8.9	
Life insurance assets	-	-	-	-	-	-	-	-	81	81	0.0	
Due from related entities	116	-	-	-	-	-	-	-	2,310	2,426	7.5	
Investment in associate	-	-	-	-	-	-	-	-	-	-	0.0	
Other financial assets	264	-	-	-	-	-	-	-	387	651	7.5	
<b>Total financial assets</b>	<b>21,912</b>	<b>7,894</b>	<b>6,144</b>	<b>9,056</b>	<b>3,669</b>	<b>1,210</b>	<b>2,615</b>	<b>134</b>	<b>5,449</b>	<b>58,083</b>		
Non-financial assets										853		
<b>Total assets</b>										<b>58,936</b>		
<b>Financial liabilities</b>												
Due to other financial institutions	728	2,007	-	-	-	-	-	-	581	3,316	7.6	
Deposits at fair value	2,783	755	8	-	-	-	-	-	-	3,546	7.7	
Deposits at amortised cost	17,399	4,741	3,694	209	101	15	11	2	2,171	28,343	5.9	
Derivative financial instruments	-	-	-	-	-	-	-	-	2,111	2,111	0.0	
Other trading liabilities at fair value	-	-	-	-	-	-	-	-	158	158	6.9	
Debt issues	3,242	2,224	3,081	125	875	-	200	-	-	9,747	5.3	
Other financial liabilities	-	-	-	-	-	-	-	-	574	574	0.0	
Subordinated debentures	-	-	728	-	-	-	-	699	-	1,427	6.6	
Due to related entities	3,245	-	-	-	-	-	-	-	2,673	5,918	7.5	
<b>Total financial liabilities</b>	<b>27,397</b>	<b>9,727</b>	<b>7,511</b>	<b>334</b>	<b>976</b>	<b>15</b>	<b>211</b>	<b>701</b>	<b>8,268</b>	<b>55,140</b>		
Non-financial liabilities										68		
<b>Total liabilities</b>										<b>55,208</b>		
<b>Financial instruments</b>												
Net interest rate contracts (notional):												
Receivable/(payable)	(2,011)	13,861	(1,468)	(6,213)	(2,425)	(590)	(912)	(242)	-	-		

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

## Note 47 Interest rate risk (continued)

<b>NZ Banking Group</b>												
30 September 2007 – Audited												
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m	Weighted Average Interest Rate % <sup>1</sup>	
<b>Financial assets</b>												
Cash and balances with central banks	1,285	-	-	-	-	-	-	-	102	1,387	8.3	
Due from other financial institutions	533	-	-	-	-	-	-	-	58	591	8.3	
Derivative financial instruments	-	-	-	-	-	-	-	-	2,945	2,945	0.0	
Other trading securities	3,908	-	-	-	-	-	-	-	-	3,908	8.5	
Other financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	0.0	
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	0.0	
Loans	18,632	5,951	7,179	9,801	4,235	2,019	2,695	59	(214)	50,357	9.2	
Life insurance assets	-	-	-	-	-	-	-	-	81	81	0.0	
Due from related entities	-	-	-	-	-	-	-	-	3,722	3,722	0.0	
Investment in associate	-	-	-	-	-	-	-	-	-	-	0.0	
Other financial assets	443	-	-	-	-	-	-	-	372	815	8.3	
<b>Total financial assets</b>	24,801	5,951	7,179	9,801	4,235	2,019	2,695	59	7,066	63,806		
Non-financial assets										901		
<b>Total assets</b>										64,707		
<b>Financial liabilities</b>												
Due to other financial institutions	863	7	-	-	-	-	-	-	-	870	8.3	
Deposits at fair value	481	1,154	1,918	2	-	-	-	-	-	3,555	8.7	
Deposits at amortised cost	18,077	4,735	4,545	244	92	15	22	1	2,279	30,010	6.6	
Derivative financial instruments	-	-	-	-	-	-	-	-	3,309	3,309	0.0	
Other trading liabilities at fair value	-	-	-	-	-	-	-	-	114	114	7.6	
Debt issues	3,947	5,326	805	1,165	875	-	310	-	-	12,428	3.6	
Other financial liabilities	-	-	-	-	-	-	-	-	695	695	0.0	
Subordinated debentures	-	730	-	-	-	-	-	660	-	1,390	6.6	
Due to related entities	5,313	-	-	-	-	-	-	-	3,072	8,385	8.3	
<b>Total financial liabilities</b>	28,681	11,952	7,268	1,411	967	15	332	661	9,469	60,756		
Non-financial liabilities										91		
<b>Total liabilities</b>										60,847		
<b>Financial instruments</b>												
Net interest rate contracts (notional):												
Receivable/(payable)	4,363	9,170	(2,305)	(7,000)	(2,293)	(360)	(1,560)	(15)	-	-		

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

# Notes to the financial statements

## Note 47 Interest rate risk (continued)

	NZ Branch										
	31 March 2008 – Unaudited										
	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years	Non-interest Bearing	Total	Weighted Average Interest Rate % <sup>1</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Financial assets</b>											
Cash and balances with central banks	740	-	-	-	-	-	-	-	137	877	8.3
Due from other financial institutions	-	-	-	-	-	-	-	-	-	-	0.0
Derivative financial instruments	-	-	-	-	-	-	-	-	2,573	2,573	0.0
Other trading securities	1,134	-	-	-	-	-	-	-	-	1,134	8.4
Loans	4,783	3,073	351	17	10	43	2	1	(17)	8,263	9.0
Due from related entities	4,566	-	-	-	-	-	-	-	3,018	7,584	8.3
Other financial assets	442	-	-	-	-	-	-	-	78	520	8.3
<b>Total financial assets</b>	<b>11,665</b>	<b>3,073</b>	<b>351</b>	<b>17</b>	<b>10</b>	<b>43</b>	<b>2</b>	<b>1</b>	<b>5,789</b>	<b>20,951</b>	
Non-financial assets										13	
<b>Total assets</b>										<b>20,964</b>	
<b>Financial liabilities</b>											
Due to other financial institutions	397	-	-	-	-	-	-	-	19	416	8.3
Deposits at fair value	-	-	-	-	-	-	-	-	-	-	0.0
Deposits at amortised cost	3,141	337	114	34	15	-	-	1	169	3,811	7.9
Derivative financial instruments	-	-	-	-	-	-	-	-	2,927	2,927	0.0
Other trading liabilities at fair value	291	-	-	-	-	-	-	-	-	291	8.3
Debt issues	-	-	-	-	-	-	-	-	-	-	0.0
Other financial liabilities	-	-	-	-	-	-	-	-	115	115	0.0
Subordinated debentures	-	-	-	-	-	-	-	688	-	688	5.3
Due to related entities	9,596	-	-	-	-	-	-	-	1,697	11,293	8.0
<b>Total financial liabilities</b>	<b>13,425</b>	<b>337</b>	<b>114</b>	<b>34</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>689</b>	<b>4,927</b>	<b>19,541</b>	
Non-financial liabilities										9	
<b>Total liabilities</b>										<b>19,550</b>	
<b>Financial instruments</b>											
Net interest rate contracts (notional):											
Receivable/(payable)	1,426	943	(1,678)	(701)	(301)	206	(80)	185	-	-	

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

## Note 47 Interest rate risk (continued)

	NZ Branch										
	31 March 2007 – Unaudited										
	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years	Non-interest Bearing	Total	Weighted Average Interest Rate % <sup>1</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Financial assets</b>											
Cash and balances with central banks	-	-	-	-	-	-	-	-	418	418	0.0
Due from other financial institutions	1,077	-	-	-	-	-	-	-	-	1,077	7.5
Derivative financial instruments	-	-	-	-	-	-	-	-	1,891	1,891	7.5
Other trading securities	1,126	-	-	-	-	-	-	-	(67)	1,059	7.8
Loans	3,778	2,378	330	19	17	4	15	74	(12)	6,603	8.5
Due from related entities	5,367	-	-	-	-	-	-	-	2,109	7,476	7.6
Other financial assets	264	-	-	-	-	-	-	-	119	383	7.5
<b>Total financial assets</b>	11,612	2,378	330	19	17	4	15	74	4,458	18,907	
Non-financial assets										9	
<b>Total assets</b>										18,916	
<b>Financial liabilities</b>											
Due to other financial institutions	728	-	-	-	-	-	-	-	581	1,309	7.5
Deposits at fair value	-	-	-	-	-	-	-	-	-	-	0.0
Deposits at amortised cost	3,225	322	136	11	21	4	-	-	109	3,828	7.0
Derivative financial instruments	-	-	-	-	-	-	-	-	2,111	2,111	0.0
Other trading liabilities at fair value	-	-	-	-	-	-	-	-	158	158	6.9
Debt issues	-	-	-	-	-	-	-	-	-	-	0.0
Other financial liabilities	-	-	-	-	-	-	-	-	137	137	0.0
Subordinated debentures	-	-	728	-	-	-	-	699	-	1,427	6.6
Due to related entities	5,581	-	-	-	-	-	-	-	1,623	7,204	7.5
<b>Total financial liabilities</b>	9,534	322	864	11	21	4	-	699	4,719	16,174	
Non-financial liabilities										44	
<b>Total liabilities</b>										16,218	
<b>Financial instruments</b>											
Net interest rate contracts (notional):											
Receivable/(payable)	(2,011)	13,861	(1,468)	(6,213)	(2,425)	(590)	(912)	(242)	-	-	

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.



# Notes to the financial statements

## Note 47 Interest rate risk (continued)

	NZ Branch											Weighted Average Interest Rate % <sup>1</sup>
	30 September 2007 – Audited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m		
<b>Financial assets</b>												
Cash and balances with central banks	1,181	-	-	-	-	-	-	-	102	1,283	8.3	
Due from other financial institutions	57	-	-	-	-	-	-	-	-	57	5.1	
Derivative financial instruments	-	-	-	-	-	-	-	-	2,945	2,945	8.3	
Other trading securities	1,540	-	-	-	-	-	-	-	(15)	1,525	8.5	
Loans	4,319	3,052	157	16	14	6	3	29	(13)	7,583	8.9	
Due from related entities	4,466	-	-	-	-	-	-	-	3,436	7,902	8.3	
Other financial assets	443	-	-	-	-	-	-	-	160	603	8.3	
<b>Total financial assets</b>	<b>12,006</b>	<b>3,052</b>	<b>157</b>	<b>16</b>	<b>14</b>	<b>6</b>	<b>3</b>	<b>29</b>	<b>6,615</b>	<b>21,898</b>		
Non-financial assets										3		
<b>Total assets</b>										<b>21,901</b>		
<b>Financial liabilities</b>												
Due to other financial institutions	863	-	-	-	-	-	-	-	-	863	8.3	
Deposits at fair value	3	6	11	-	-	-	-	-	-	20	8.7	
Deposits at amortised cost	3,352	414	176	28	21	4	-	1	138	4,134	7.7	
Derivative financial instruments	-	-	-	-	-	-	-	-	3,309	3,309	0.0	
Other trading liabilities at fair value	-	-	-	-	-	-	-	-	114	114	7.6	
Debt issues	-	-	-	-	-	-	-	-	-	-	0.0	
Other financial liabilities	-	-	-	-	-	-	-	-	89	89	0.0	
Subordinated debentures	-	730	-	-	-	-	-	660	-	1,390	6.6	
Due to related entities	6,533	-	-	-	-	-	-	-	2,787	9,320	9.0	
<b>Total financial liabilities</b>	<b>10,751</b>	<b>1,150</b>	<b>187</b>	<b>28</b>	<b>21</b>	<b>4</b>	<b>-</b>	<b>661</b>	<b>6,437</b>	<b>19,239</b>		
Non-financial liabilities										17		
<b>Total liabilities</b>										<b>19,256</b>		
<b>Financial instruments</b>												
Net interest rate contracts (notional):												
Receivable/(payable)	4,363	9,170	(2,305)	(7,000)	(2,293)	(360)	(1,560)	(15)	-	-		

<sup>1</sup> The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

## Note 48 Foreign currency risk

The net open position in each foreign currency, detailed in the table below, represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the end of the reporting period spot foreign exchange rates.

	NZ Banking Group			NZ Branch		
	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m	31 March 2008 Unaudited \$m	31 March 2007 Unaudited \$m	30 September 2007 Audited \$m
	<b>Receivable/(payable)</b>					
Australian dollar	(3)	21	(1)	(3)	21	(1)
Euro	-	13	-	-	13	-
Great British pound	1	10	1	1	10	1
Japanese yen	2	(1)	-	2	(1)	-
United States dollar	23	(6)	(34)	23	(6)	(34)
Other	(7)	2	1	(7)	2	1

## Note 49 Operational risk

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

The NZ Banking Group has adopted the Overseas Bank's Operational Risk Framework that was initially approved by the Group BRMC on 2 May 2005 and revised on 30 April 2007. This Framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management, Operational Risk in Change, Reporting and Monitoring and Operational Risk Capital Allocation.

All business and support areas are responsible for the ongoing identification, measurement, monitoring and mitigation of operational risk. On a quarterly basis, as part of the Management Assurance Programme, each of the business and support areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from Operational Risk, Compliance and Group Audit. The results of this process are reported quarterly to the New Zealand Operational Risk and Compliance Committee (chaired by the NZ CEO) and the Group BRMC.

## Note 50 Local incorporation and vested assets and liabilities as at 1 November 2006

The Reserve Bank's policy is that all systemically important banks must incorporate as a local entity rather than operate through a branch structure. The NZ Branch, a branch of the Overseas Bank, is a systemically important bank and has therefore been required to incorporate locally.

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

Accordingly, the Overseas Bank established a new subsidiary in New Zealand, Westpac New Zealand Limited (**'Westpac New Zealand'**) to assume and carry on the New Zealand consumer and business banking operations of the NZ Branch. Wholesale banking and financial markets business remains with the NZ Branch.

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

Westpac New Zealand commenced business as a registered bank on 1 November 2006.

The assets and liabilities that vested in Westpac New Zealand included all deposits and other liabilities, loans, securities and interests in land in relation to business banking (being financial services provided by the NZ Branch to small, medium and corporate business customers, agricultural businesses, and property investment and development customers) and consumer banking (being the financial services provided by the NZ Branch in relation to consumers).

The vesting of designated assets and liabilities did not change the overall position of the NZ Banking Group. However, the vesting materially affected the current financial position of the NZ Branch.

The NZ Branch continues to operate as a branch and retains wholesale banking and financial markets business, which will continue to be conducted through Westpac Institutional Bank (**'Institutional Bank'**). There was no change to the banking relationship between the Institutional Bank and its customers.

The reconciliation statement of assets and liabilities below was prepared to provide an overview of the NZ Branch's financial position on 1 November 2006, taking into account the vesting of designated assets and liabilities in Westpac New Zealand.

In addition to the assets and liabilities displayed in this note, on 1 November 2006, Westpac Holdings - NZ - Limited sold its related entities Westpac (NZ) Investments Limited, The Home Mortgage Company Limited and its 51% interest in The Warehouse Financial Services Limited, each of whose business relates to retail banking operations, to Westpac New Zealand Limited. These sales had no effect on the results of either the NZ Banking Group nor the NZ Branch.

Further information on Westpac New Zealand is available in Westpac New Zealand Limited's General Disclosure Statement for the six months ended 31 March 2008.

# Notes to the financial statements

## Note 50 Local incorporation and vested assets and liabilities as at 1 November 2006 (continued)

	NZ Branch Immediately Prior to Vesting on 1 November 2006 \$m	Adjustment for Assets and Liabilities Vesting in Westpac New Zealand \$m	Adjustment in the NZ Branch Resulting From Vesting \$m	Restated NZ Branch Immediately After Vesting on 1 November 2006 \$m
<b>Assets</b>				
Cash and balances with central banks	211	(123)	-	88
Due from other financial institutions	700	-	-	700
Derivative financial instruments	1,376	-	-	1,376
Other trading securities	-	-	-	-
Other financial assets designated at fair value	2,623	-	-	2,623
Available-for-sale securities	-	-	-	-
Loans	42,388	(36,719)	44	5,713
Due from related entities	1,123	(2)	-	1,121
Investments in related entities	-	-	-	-
Goodwill and other intangible assets	606	(606)	-	-
Property, plant and equipment	23	(23)	-	-
Income tax receivable	-	-	-	-
Deferred tax assets	86	(72)	12	26
Other assets	386	(114)	-	272
<b>Total assets</b>	<b>49,522</b>	<b>(37,659)</b>	<b>56</b>	<b>11,919</b>
<i>Less:</i>				
<b>Liabilities</b>				
Due to other financial institutions	923	-	-	923
Deposits at fair value	4,084	(4,084)	-	-
Deposits at amortised cost	26,017	(23,430)	-	2,587
Derivative financial instruments	1,597	(4)	-	1,593
Other trading liabilities at fair value	276	-	-	276
Debt issues	-	-	-	-
Current tax liabilities	16	-	27	43
Deferred tax liabilities	-	-	-	-
Provisions	73	(58)	-	15
Other liabilities	667	(382)	-	285
<b>Total liabilities excluding subordinated debentures and due to related entities</b>	<b>33,653</b>	<b>(27,958)</b>	<b>27</b>	<b>5,722</b>
Subordinated debentures	1,472	-	-	1,472
<b>Total liabilities excluding due to related entities</b>	<b>35,125</b>	<b>(27,958)</b>	<b>27</b>	<b>7,194</b>
Due to related entities	11,707	(9,701)	-	2,006
<b>Total liabilities excluding head office account</b>	<b>46,832</b>	<b>(37,659)</b>	<b>27</b>	<b>9,200</b>
<b>Net assets excluding head office account</b>	<b>2,690</b>	<b>-</b>	<b>29</b>	<b>2,719</b>
<i>Represented by:</i>				
<b>Head office account</b>				
Branch capital	711	-	-	711
Retained profits	670	-	54	724
<b>Total head office account</b>	<b>1,381</b>	<b>-</b>	<b>54</b>	<b>1,435</b>
<b>NZ Banking Group equity</b>				
Cash flow hedge reserve	25	-	(25)	-
Convertible debentures	1,284	-	-	1,284
<b>Total NZ Banking Group equity</b>	<b>1,309</b>	<b>-</b>	<b>(25)</b>	<b>1,284</b>
<b>Minority interests</b>				
Other minority interests	-	-	-	-
<b>Total minority interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total head office account and equity</b>	<b>2,690</b>	<b>-</b>	<b>29</b>	<b>2,719</b>

## Auditors' review report



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### **Auditors' Review Report**

To the Directors of Westpac Banking Corporation

We have reviewed the financial statements on pages 10 to 97. The financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Branch (the "NZ Branch") and Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") for the period ended 31 March 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 16 to 26.

The financial statements consist of the financial statements of the NZ Branch and the consolidated financial statements of the NZ Banking Group for the six months ended 31 March 2008, and contain the supplementary information required by Clause 19 and 20 of Schedule 3 and Schedules 4 to 8 of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the "Order").

### **Directors' Responsibilities**

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 31 March 2008 and their financial performance and cash flows for the six months ended on that date. They are also responsible for the preparation and presentation of the supplementary information which:

- gives a true and fair view, in accordance with Clause 23 of the Order, of the matters to which it relates; and
- complies with Schedules 3 to 8 of the Order in accordance with Clause 21 of the Order.

### **Reviewers' Responsibilities**

We are responsible for reviewing the financial statements and supplementary information disclosed in accordance with Clauses 19 and 20 of Schedule 3 and 4 to 8 of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the financial statements and supplementary information do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

## Auditors' review report (continued)



### Auditors' Review Report

Westpac Banking Corporation

#### Basis of Review Statement

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

We have reviewed the financial statements of the NZ Branch and the NZ Banking Group in accordance with Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

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

#### Review Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- (a) the financial statements do not present fairly the financial position of the NZ Branch and the NZ Banking Group as at 31 March 2008 and their financial performance and cash flows for the year ended on that date; and
- (b) the supplementary information as required by Clauses 19 and 20 of Schedule 3 and Schedules 4 to 8 of the Order does not give a true and fair view of the matters to which it relates.

Our work was completed on 1 May 2008 and our review opinion is expressed as at that date.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers". Below the signature is a long, horizontal, curved line.

Chartered Accountants

Auckland









FreePost Authority Number 4030



Supplemental Disclosure Statement  
Company Secretariat  
Level 12  
188 Quay Street  
PO Box 934  
AUCKLAND

## Supplemental disclosure statement

If you wish to obtain a copy of any of the documents listed below (free of charge), please complete the detachable section and post it back to us.

Alternatively, the documents will be provided immediately, free of charge, from the NZ Branch'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 other staffed premises primarily engaged in the business of the NZ Branch to which its customers have access in order to conduct banking business.

Name: \_\_\_\_\_

Postal address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Please place a tick in the relevant space provided to receive a copy of any of the document(s) listed below (free of charge).

**ANNUAL REPORT 2007 \***

**2008 HALF-YEAR PROFIT RESULTS \*\***

\* Containing the most recent publicly available financial statements of the Overseas Bank.

\*\* Containing the most recent publicly available financial statements of the Overseas Banking Group.