Westpac Banking Corporation
General Disclosure Statement

For the year ended 30 September 2008

Index

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 ('**Order**').

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 30 September 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 2008.

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.

General matters (continued)

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 Melbourne Business School Limited, G & A Kelly Investments Pty Limited and Financial Markets Foundation for Children. Member of each of the Financial Services Advisory Council and Australia Bankers' Association.

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 Australian Institute of Company Directors, Caltex Australia Petroleum Pty Ltd, Caltex Australia Custodians Pty Ltd, E. Bryan Superannuation Fund Pty Ltd and UniSuper Management Pty Ltd.

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, Opera Australia, World Education Australia Limited, Ceilidh Pty Ltd and Piobaireachd Pty Ltd. Member of the Asia Pacific Advisory Board of CVC Capital Partners, Advisor to Caliburn Partnership Advisor Board 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, Dip. Bus (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 each of Transurban Group (Transurban Holdings Ltd and Transurban Infrastructure Management Ltd), Baker Heart Research Institute, Belmont Pty Ltd, Continuum Investments Pty Ltd, Jacobite Investments Pty Ltd, Kaprad Holdings Pty Ltd, Align Investments Pty Ltd and Managing Director of Align Capital Pty Limited.

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 Kermadec Property Fund Limited. Director of each of The Colonial Motor Company Limited and Farmlands Trading Society Limited. Member of the New Zealand Exchange Limited Discipline Body and Chairman of NZX Special Division.

General matters (continued)

Since publication of the NZ Branch's last General Disclosure Statement there has been no change to the composition of the Board.

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: None

Responsible person

Bruce McLachlan, Chief Executive (Acting), Westpac New Zealand Limited, has been authorised in writing by each Director named on pages 2, 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 Bruce McLachlan is a Responsible Person under the Order. The following disclosures are made in relation to Bruce McLachlan in his capacity as a Responsible Person:

Name: Bruce McLachlan, BCA
Country of Residence: New Zealand
Primary Occupation: Chief Executive (Acting), Westpac New Zealand Limited
Secondary Occupations: None

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's 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 30 September 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**

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

Descriptions of credit rating scales

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

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

Credit ratings by 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 NZ Branch's Supplemental Disclosure Statement, which contains a copy of the most recent publicly available financial statements of the Overseas Bank and the Overseas Banking Group, will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Branch's head office, Level 15, 188 Quay Street, Auckland. They are also available, free of charge, at the internet address www.westpac.co.nz and within five working days of any request, at any branch of the NZ Branch and at any staffed premises of any agency of the NZ Branch, primarily engaged in the business of the NZ Branch to which its customers or potential 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 (which are contained in the NZ Branch's Supplemental Disclosure Statement) can also be accessed at the internet address www.westpac.com.au.

Historical summary of financial statements

	NZ Banking Group						
	2008 NZ IFRS[1]	2007 NZ IFRS	2006 NZ IFRS	2005 NZ IFRS[2,3]	2005 NZ FRS[3,7]	2004 NZ FRS[4,7]	2003 NZ FRS[5,6,7]
	$m	$m	$m	$m	$m	$m	$m
Income statement							
Interest income	**5,387**	4,603	3,793	3,081	2,986	2,596	2,368
Interest expense	**(4,049)**	(3,359)	(2,625)	(2,019)	(1,892)	(1,499)	(1,335)
Net interest income	**1,338**	1,244	1,168	1,062	1,094	1,097	1,033
Non-interest income	**620**	528	524	545	593	591	538
Net operating income	**1,958**	1,772	1,692	1,607	1,687	1,688	1,571
Operating expenses	**(814)**	(736)	(699)	(680)	(726)	(731)	(699)
Impairment charges on loans	**(181)**	(91)	(31)	(44)	(44)	(39)	(205)
Profit before income tax expense	**963**	945	962	883	917	918	667
Income tax expense	**(281)**	(295)	(319)	(216)	(292)	(297)	(203)
Profit after income tax expense	**682**	650	643	667	625	621	464
Profit after income tax expense attributable to minority interests in subsidiary companies	**(3)**	(4)	(4)	(5)	(14)	(4)	(2)
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	**679**	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	**(170)**	(31)	(150)	-	-	-	(180)
Dividends paid or provided for on preference share capital	**(15)**	-	-	-	-	-	-
Dividends paid or provided for on convertible debentures (net of tax)	**(66)**	(69)	(67)	(107)	(107)	(138)	(64)
Dividends paid or provided for on NZ Class shares	**-**	-	-	(54)	(54)	(50)	(44)
Profit (repatriated)/retained	**(174)**	409	100	168	117	79	147
Balance sheet							
Total assets	**70,872**	64,608	52,136	45,336	45,050	42,491	39,945
Total impaired assets	**278**	118	66	80	80	58	71
Total liabilities	**66,720**	60,748	48,719	41,370	41,072	38,064	34,920
Total head office account	**174**	1,361	1,307	1,090			
Total head office account and equity	**4,152**	3,860	3,417	3,966	3,978	4,427	5,025

1 During the year ended 30 September 2008, the NZ Branch repatriated $1.3 billion to the Overseas Bank from NZ Branch capital ($698 million) and retained profits ($602 million).

2 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.

3 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.

4 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 Tavarua Funding Trust.

5 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.

6 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 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.

7 These numbers have not been prepared under NZ IFRS. The primary adjustments are referred to in footnote 2 above.

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 financial year.

Guarantee arrangements

Certain material obligations of the Overseas Bank are guaranteed as at the date the Directors and the Chief Executive Officer of the NZ Branch signed this General Disclosure Statement.

The Australian Government announced on 12 October 2008 that it will guarantee the deposits in eligible Australian authorised deposit-taking institutions ('**ADIs**') (as that term is defined for the purposes of the Banking Act 1959 (Australia) ('**Australian Banking Act**')) for a period of three years from 12 October 2008. As at the date of this General Disclosure Statement, the Overseas Bank is an ADI.

Guarantee arrangements (continued)

Until 27 November 2008, the deposit guarantee applied to all deposits held in eligible ADIs (including foreign branches of eligible ADIs, such as the NZ Branch) by all types of legal entities, regardless of where the depositor resides, in any currency (including NZ dollars). Until 27 November 2008, no fee was payable by an ADI for the deposit guarantee.

The Australian Banking Act has been amended to facilitate the deposit guarantee by establishing a financial claims scheme (‘**FCS**’) to be administered by the Australian Prudential Regulation Authority (‘**APRA**’). An ADI will be an ‘eligible ADI’ for the purposes of the FCS in circumstances where APRA has applied for the winding-up of the ADI and a declaration has been made by the responsible Australian Government minister that the FCS applies to that ADI.

The Australian Government also announced on 12 October 2008 that it will guarantee wholesale funding of an eligible institution in return for a fee payable by that institution. An interim Deed of Guarantee was executed by the Australian Government on 2 November 2008. The interim Deed of Guarantee automatically terminated on 27 November 2008.

On 21 November 2008 the Australian Government released the final details and rules (‘**Scheme Rules**’) of the guarantee facility (‘**Guarantee Facility**’) for deposits of amounts over A$1 million and wholesale term funding. The obligations of the Commonwealth of Australia are contained in a deed of guarantee executed on behalf of the Commonwealth of Australia (‘**Guarantor**’) dated 20 November 2008 and taking effect from 28 November 2008 (‘**Guarantee**’). The Scheme Rules govern access to protection under the Guarantee. The Guarantee Facility replaces the interim Deed of Guarantee.

The Scheme Rules set out those named institutions that are ‘eligible institutions’ for the Guarantee Facility. As at the date of this General Disclosure Statement, the Overseas Bank is such an eligible institution.

From 28 November 2008, the first A$1 million of ‘protected accounts’ held with an eligible ADI (including most deposits) will be guaranteed for free under the FCS and an eligible institution will be able to obtain coverage for deposits of amounts over A$1 million and wholesale term funding under the Guarantee Facility in return for a fee. The A$1 million threshold for deposit amounts applies to the total amount of funds held by a depositor in (separate) deposit accounts with an eligible institution. Liabilities of an eligible institution will only have the benefit of the Guarantee Facility where an eligibility certificate has been issued by the Commonwealth of Australia in respect of those liabilities. Details of eligibility certificates issued in respect of the liabilities of the Overseas Bank are available on www.guaranteescheme.gov.au/guaranteed-liabilities.

For further details in respect of the FCS and the Guarantee Facility for large deposits and wholesale term funding, refer to Note 50 to the financial statements.

Ranking of local creditors in liquidation

There are material legislative restrictions in Australia (being the Overseas Bank’s country of incorporation) which subordinate the claims of certain classes of unsecured creditors of the Overseas Bank on the Australian assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) to those of other classes of unsecured creditors of the Overseas Bank, in the event that the Overseas Bank becomes unable to meet its obligations or suspends payment.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Branch (together with all other senior unsecured creditors of the Overseas Bank) and New Zealand depositors on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) relative to those of certain other classes of unsecured creditors of the Overseas Bank, in the event that the Overseas Bank becomes unable to meet its obligations or suspends payment.

As at 30 September 2008, section 13A(3) of the Australian Banking Act stated:

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

With effect from 18 October 2008, section 13A(3) of the Australian Banking Act was amended to provide that, in the event of the ADI becoming unable to meet its obligations or suspending payment, the assets in Australia of an ADI are to be available to satisfy, in priority to all other liabilities of the ADI:

- first, certain obligations of the ADI to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of ‘protected accounts’ (as defined for the purposes of the Australian Banking Act) as part of the FCS;
- secondly, APRA’s costs in exercising its powers and performing its functions relating to the ADI in connection with the FCS; and
- thirdly, the ADI’s deposit liabilities in Australia (other than any liabilities under the first priority listed above).

Section 13A of the Australian Banking Act affects all of the unsecured deposit liabilities of the NZ Branch which as at 30 September 2008 amounted to $4,421 million (30 September 2007: $5,017 million).

Section 13A(4) of the Australian Banking Act also 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 APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 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.

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

The requirements of the above provisions 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 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 to 2005 tax years from the NZIRD in relation to its investigation of certain structured finance transactions. Proceedings disputing all amended assessments have been commenced.

A description of these proceedings and other contingent liabilities of the NZ Banking Group and the NZ Branch is set out in Note 33 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 2008 Annual 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.

Refer to Note 51 for further information.

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's General Disclosure Statement for the year ended 30 September 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 1 percent of its total consolidated assets. For the purposes of this condition:
   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (ii) In measuring the size of the 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;
   - Total capital of Westpac Banking Corporation is not less than 8 percent of risk-weighted exposures.

Conditions of registration (continued)

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 39 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 Order; 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 year ended 30 September 2008:

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

This Directors' Statement has been signed on behalf of the Directors by Bruce McLachlan, Chief Executive (Acting), Westpac New Zealand and David McLean has signed in his personal capacity as Chief Executive Officer, NZ Branch.

Bruce McLachlan

David McLean

Dated this the 4th day of December 2008.

Financial statements

Contents

Income statements for the year ended 30 September 2008

		NZ Banking Group		NZ Branch	
		Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	Note	**$m**	$m	**$m**	$m
Interest income	2	**5,387**	4,603	**1,770**	1,626
Interest expense	2	**(4,049)**	(3,359)	**(1,596)**	(1,267)
Net interest income		**1,338**	1,244	**174**	359
Non-interest income:					
Fees and commissions	3	**361**	359	**43**	56
Wealth management revenue	3	**74**	74	**-**	-
Trading income	3	**112**	75	**112**	75
(Loss)/gain on ineffective hedges	3	**(5)**	5	**-**	4
Share of net profits of associate	3	**48**	-	**-**	-
Other non-interest income	3	**30**	15	**-**	9
Total non-interest income		**620**	528	**155**	144
Net operating income		**1,958**	1,772	**329**	503
Operating expenses	4	**(814)**	(736)	**(70)**	(160)
Impairment charges on loans	6	**(181)**	(91)	**(11)**	(7)
Profit before income tax expense		**963**	945	**248**	336
Income tax expense	7	**(281)**	(295)	**(69)**	(63)
Profit after income tax expense		**682**	650	**179**	273
Profit after income tax expense attributable to minority interests		**(3)**	(4)	**-**	-
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group		**679**	646	**179**	273

The accompanying notes (numbered 1 to 51) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the year ended 30 September 2008

	Head Office Account		NZ Banking Group Equity						
NZ Banking Group	Branch Capital $m	Retained Profits $m	Share Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Available-for-sale $m	Convertible Debentures $m	Minority Interests $m	Total $m
As at 1 October 2006	711	596	133	668	19	-	1,284	6	3,417
Year ended 30 September 2007									
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 statement	-	-	-	-	-	(1)	-	-	(1)
Income tax effect	-	-	-	-	-	-	-	-	-
Profit after income tax expense	-	273	-	373	-	-	-	4	650
Total recognised income and expenses for the year ended 30 September 2007	-	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[1]	(13)	-	-	-	-	-	-	-	(13)
Remittance to the Overseas Bank	-	(137)	-	-	-	-	-	-	(137)
As at 30 September 2007	698	663	133	1,010	62	-	1,284	10	3,860
Year ended 30 September 2008									
Net gains from changes in available-for-sale investments (net of tax)	-	-	-	-	-	**16**	-	-	**16**
Net losses from changes in fair value of cash flow hedges	-	-	-	-	**(209)**	-	-	-	**(209)**
Income tax effect	-	-	-	-	**64**	-	-	-	**64**
Transferred to income statement	-	-	-	-	**(8)**	-	-	-	**(8)**
Income tax effect	-	-	-	-	**3**	-	-	-	**3**
Profit after income tax expense	-	**179**	-	**500**	-	-	-	**3**	**682**
Total recognised income and expenses for the year ended 30 September 2008	-	**179**	-	**500**	**(150)**	**16**	-	**3**	**548**
Share capital issued	-	-	**1,300**	-	-	-	-	-	**1,300**
Dividends:									
Dividends paid or provided for on convertible debentures (net of tax)	-	**(66)**	-	-	-	-	-	-	**(66)**
Dividends paid or provided for on ordinary shares	-	-	-	**(170)**	-	-	-	-	**(170)**
Dividends paid or provided for on preference shares	-	-	-	**(15)**	-	-	-	-	**(15)**
Remittance to the Overseas Bank[2]	**(698)**	**(602)**	-	-	-	-	-	-	**(1,300)**
Other minority interests	-	-	-	-	-	-	-	**(5)**	**(5)**
As at 30 September 2008	-	**174**	**1,433**	**1,325**	**(88)**	**16**	**1,284**	**8**	**4,152**

[1] Branch capital relating to share-based payments has been reclassified to due to related entities.

[2] During the year ended 30 September 2008, the NZ Branch repatriated $1.3 billion to the Overseas Bank from NZ Branch capital ($698 million) and retained profits ($602 million). The amount repatriated was replaced by the issuance of $1.3 billion redeemable preference shares which are redeemable in 100 years, with distributions at the discretion of the Board.

The accompanying notes (numbered 1 to 51) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity (continued) for the year ended 30 September 2008

	NZ Branch				
	Head Office Account		Cash Flow		
	Branch Capital	Retained Profits	Hedge Reserve	Convertible Debentures	Total
	$m	$m	$m	$m	$m
As at 1 October 2006	711	596	19	1,284	2,610
Year ended 30 September 2007					
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 statement	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	-	273	-	-	273
Total recognised income and expenses for the year ended 30 September 2007	-	273	(19)	-	254
Dividends paid or provided for on convertible debentures (net of tax)	-	(69)	-	-	(69)
Share-based payments[1]	(13)	-	-	-	(13)
Remittances to the Overseas Bank	-	(137)	-	-	(137)
As at 30 September 2007	698	663	-	1,284	2,645
Year ended 30 September 2008					
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 statement	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	**-**	**179**	**-**	**-**	**179**
Total recognised income and expenses for the year ended 30 September 2008	**-**	**179**	**-**	**-**	**179**
Dividends paid or provided for on convertible debentures (net of tax)	**-**	**(66)**	**-**	**-**	**(66)**
Remittance to the Overseas Bank	**(698)**	**(602)**	**-**	**-**	**(1,300)**
As at 30 September 2008	**-**	**174**	**-**	**1,284**	**1,458**

[1] Branch capital relating to share-based payments has been reclassified to due to related entities.

The accompanying notes (numbered 1 to 51) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 30 September 2008

		NZ Banking Group		NZ Branch	
		2008	2007	**2008**	2007
	Note	**$m**	$m	**$m**	$m
Assets					
Cash and balances with central banks		**1,286**	1,387	**1,174**	1,283
Due from other financial institutions	9	**1,222**	591	**558**	57
Derivative financial instruments	30	**5,125**	2,945	**5,125**	2,945
Other trading securities	10	**3,527**	3,908	**1,554**	1,525
Other financial assets designated at fair value	10	**-**	-	**-**	-
Available-for-sale securities	11	**35**	-	**-**	-
Loans	12, 13	**55,569**	50,357	**8,894**	7,583
Life insurance assets		**89**	81	**-**	-
Due from related entities[1]	29	**2,182**	3,623	**7,787**	7,902
Investment in associate	29	**48**	-	**-**	-
Goodwill and other intangible assets	15	**629**	673	**-**	-
Property, plant and equipment	16	**78**	89	**-**	-
Income tax receivable		**28**	47	**67**	-
Deferred tax assets	17	**154**	92	**-**	3
Other assets	18	**900**	815	**683**	603
Total assets		**70,872**	64,608	**25,842**	21,901
Less:					
Liabilities					
Due to other financial institutions	19	**297**	870	**297**	863
Deposits at fair value	20	**4,163**	3,555	**-**	20
Deposits at amortised cost	20	**32,188**	30,010	**4,124**	4,134
Derivative financial instruments	30	**4,602**	3,309	**4,602**	3,309
Other trading liabilities at fair value	21	**1,101**	114	**1,101**	114
Debt issues	22	**11,102**	12,428	**-**	-
Current tax liabilities		**-**	-	**-**	4
Deferred tax liabilities	23	**-**	11	**6**	-
Provisions	24	**81**	68	**13**	13
Other liabilities	25	**1,081**	707	**405**	89
Total liabilities excluding subordinated debentures and due to related entities		**54,615**	51,072	**10,548**	8,546
Subordinated debentures	26	**798**	1,390	**798**	1,390
Total liabilities excluding due to related entities		**55,413**	52,462	**11,346**	9,936
Due to related entities[1]	29	**11,307**	8,286	**13,038**	9,320
Total liabilities excluding head office account		**66,720**	60,748	**24,384**	19,256
Net assets		**4,152**	3,860	**1,458**	2,645
Represented by:					
Head office account					
Branch capital		**-**	698	**-**	698
Retained profits		**174**	663	**174**	663
Total head office account		**174**	1,361	**174**	1,361
NZ Banking Group equity					
Ordinary share capital		**133**	133	**-**	-
Preference share capital		**1,300**	-	**-**	-
Retained profits		**1,325**	1,010	**-**	-
Available-for-sale securities reserve		**16**	-	**-**	-
Cash flow hedge reserve		**(88)**	62	**-**	-
Convertible debentures	28	**1,284**	1,284	**1,284**	1,284
Total NZ Banking Group equity		**3,970**	2,489	**1,284**	1,284
Minority interests		**8**	10	**-**	-
Total head office account and equity		**4,152**	3,860	**1,458**	2,645

[1] The 30 September 2007 comparative balances for amounts due from and due to related entities in the NZ Banking Group have been reduced by $99 million to reflect the elimination of inter-company balances, consistent with the current year's treatment.

The accompanying notes (numbered 1 to 51) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the year ended 30 September 2008

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Cash flows from operating activities				
Interest income received	**5,381**	4,539	**1,362**	1,601
Interest paid	**(4,020)**	(3,185)	**(1,191)**	(1,265)
Other non-interest income received	**563**	526	**155**	138
Net disposal/(acquisition) of other trading securities	**318**	(1,256)	**(93)**	1,126
Net acquisition/(disposal) of other trading liabilities	**1,078**	(35)	**1,078**	(35)
Net (disposal)/acquisition of derivative financial instruments	**(1,104)**	225	**(887)**	145
Operating expenses paid	**(679)**	(694)	**(77)**	(187)
Income tax paid	**(203)**	(335)	**(39)**	(40)
Net cash flows from operating activities	**1,334**	(215)	**308**	1,483
Cash flows from investing activities				
Net increase in due from other financial institutions – term	**(495)**	(224)	**(364)**	-
Net disposal of other financial assets designated at fair value	**-**	1,550	**-**	-
Net disposal of available-for-sale securities	**29**	472	**-**	-
Net loans advanced to customers	**(5,393)**	(8,657)	**(1,322)**	(2,910)
Net acquisition of life insurance assets	**(8)**	(6)	**-**	-
Net decrease/(increase) in due from related entities	**101**	(2,137)	**115**	(5,524)
Net increase in other assets	**(11)**	(195)	**(14)**	(161)
Purchase of capitalised computer software	**(38)**	(35)	**-**	-
Purchase of property, plant and equipment	**(21)**	(21)	**-**	(1)
Proceeds from disposal of computer software	**-**	-	**-**	(3)
Net cash used in investing activities	**(5,836)**	(9,253)	**(1,585)**	(8,599)
Cash flows from financing activities				
Redemption of Fixed Interest Resettable Trust Securities	**(730)**	-	**(730)**	-
Issue of preference share capital	**1,300**	-	**-**	-
Net decrease in due to other financial institutions – term	**(7)**	(1,993)	**-**	-
Net increase/(decrease) in deposits	**2,786**	3,202	**(30)**	1,305
Net (redemptions)/proceeds from debt issues	**(1,326)**	5,217	**-**	-
Net increase in due to related entities	**4,308**	4,126	**3,718**	6,936
Net increase/(decrease) in other liabilities	**361**	(72)	**312**	(93)
Payment of dividends on convertible debentures	**(99)**	(98)	**(99)**	(98)
Payment of dividends on ordinary shares	**(175)**	-	**-**	-
Payment of dividends on preference shares	**(15)**	-	**-**	-
Remittance to the Overseas Bank	**(1,300)**	(137)	**(1,300)**	(137)
Net cash provided by financing activities	**5,103**	10,245	**1,871**	7,913

The accompanying notes (numbered 1 to 51) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows (continued) for the year ended 30 September 2008

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Net increase in cash and cash equivalents	**601**	777	**594**	797
Cash and cash equivalents at beginning of the year	**582**	(195)	**477**	(197)
Cash vested in Westpac New Zealand	**-**	-	**-**	(123)
Cash and cash equivalents at end of the year	**1,183**	582	**1,071**	477
Cash and cash equivalents comprise				
Cash and balances with central banks	**1,286**	1,387	**1,174**	1,283
Due (to)/from other financial institutions – at call	**(103)**	(805)	**(103)**	(806)
Cash and cash equivalents at end of the year	**1,183**	582	**1,071**	477
Reconciliation of profit after income tax expense to net cash flows from operating activities				
Profit after income tax expense attributable to head office account and equity holders of the NZ Banking Group	**679**	646	**179**	273
Adjustments:				
Software amortisation costs	**49**	38	**-**	3
Impairment on goodwill	**20**	-	**-**	-
Impairment charges on intangible assets	**13**	-	**-**	-
Impairment charges on property, plant and equipment	**8**	-	**-**	-
Impairment charges on loans	**181**	91	**11**	7
Depreciation/amortisation	**24**	27	**-**	1
Gain/(loss) on sale of property, plant and equipment	**-**	1	**-**	-
Share of net profits of associate	**(48)**	-	**-**	-
Share-based payments	**5**	3	**-**	-
Minority interests in subsidiary companies	**3**	4	**-**	-
Movement in accrued assets	**(11)**	(53)	**(2)**	(24)
Movement in accrued liabilities	**73**	140	**22**	(36)
Movement in income tax provisions	**(54)**	(57)	**(33)**	(9)
Tax on convertible debentures dividends	**33**	32	**33**	32
Net disposal/(acquisition) of other trading securities	**318**	(1,256)	**(93)**	1,126
Net acquisition/(disposal) of other trading liabilities	**1,078**	(34)	**1,078**	(35)
Net (disposal)/acquisition of derivative financial instruments	**(1,037)**	203	**(887)**	145
Net cash flows from operating activities	**1,334**	(215)	**308**	1,483

The accompanying notes (numbered 1 to 51) 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 Order, 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 4th day of December 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.

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

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.

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.

Note 1 Statement of accounting policies (continued)

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 the 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 the grant date using a 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.

Taxation

Income tax

Income tax expense on the profit for the reporting periods 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.

Note 1 Statement of accounting policies (continued)

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 securities

Available-for-sale 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.

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.

Note 1 Statement of accounting policies (continued)

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:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. 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;

d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e. the disappearance of an active market for that financial asset because of financial difficulties; or

f. 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:

   (i) adverse changes in the payment status of borrowers in the group; or

   (ii) 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.

Note 1 Statement of accounting policies (continued)

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 the income statement – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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.

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.

Note 1 Statement of accounting policies (continued)

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 2008.

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.

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

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

Note 1 Statement of accounting policies (continued)

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. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch, which arises due to derivatives being executed for risk management purposes.

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.

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.

Note 1 Statement of accounting policies (continued)

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. 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. Foreign exchange gains and losses on non-monetary assets are also included in the available-for-sale securities reserve.

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.

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.

Note 1 Statement of accounting policies (continued)

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 risks of the leased assets remain with 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 International 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 by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants, 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.
- NZ IAS 1 *Presentation of Financial Statements* is a revised standard applicable to annual reporting periods beginning on or after 1 January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- Amendments to NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1 were approved in November 2007 that require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver another party or pro rata share of the net assets only on liquidation to be classified as equity. The amendment is applicable to the NZ Banking Group from 1 October 2009.

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.

Note 1 Statement of accounting policies (continued)

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

The fair value of financial instruments is provided in Note 32.

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.

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 loans 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.

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

(i) 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.

(ii) 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.

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 30 September 2008 was $527 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 15.

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 35. 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 30 September 2008 was $43 million (30 September 2007: $11 million). This comprised net recognised liabilities of $23 million (30 September 2007: $24 million) and unrecognised actuarial losses of $20 million (30 September 2007: actuarial gains of $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.

Note 2 Net interest income

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Interest income				
Loans	**4,976**	4,096	**757**	821
Deposits with other financial institutions	**105**	113	**99**	111
Available-for-sale securities	**-**	26	**-**	-
Impaired assets	**18**	8	**-**	-
Related entities	**-**	-	**769**	544
Other trading securities	**242**	207	**101**	88
Other financial assets designated at fair value	**-**	90	**-**	-
Other	**46**	63	**44**	62
Total interest income	**5,387**	4,603	**1,770**	1,626
Interest expense				
Current and term deposits	**2,502**	2,020	**296**	415
Deposits from other financial institutions	**36**	159	**36**	58
Debt issues	**571**	581	**-**	-
Related entities	**388**	344	**714**	552
Subordinated debentures	**52**	103	**52**	103
Other trading liabilities at fair value	**478**	67	**469**	62
Other	**22**	85	**29**	77
Total interest expense	**4,049**	3,359	**1,596**	1,267
Net interest income	**1,338**	1,244	**174**	359

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

Note 3 Non-interest income

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Fees and commissions				
Lending fees (loan and risk)	**96**	92	**7**	14
Transaction fees and commissions	**250**	258	**24**	36
Management fees received from related entities	**2**	1	**-**	-
Other non-risk fee income	**13**	8	**12**	6
Total fees and commissions	**361**	359	**43**	56
Wealth management operating income				
Fees from trust and other fiduciary activities	**101**	104	**-**	-
Net life insurance income and change in policy liabilities	**(27)**	(30)	**-**	-
Total wealth management operating income	**74**	74	**-**	-
Trading income				
Foreign exchange	**71**	51	**71**	51
Other trading	**41**	24	**41**	24
Total trading income	**112**	75	**112**	75
Gain/(loss) on ineffective hedges	**(5)**	5	**-**	4
Share of net profit of associate	**48**	-	**-**	-
Other non-interest income				
Dividend income	**1**	2	**-**	-
Rental income	**1**	1	**-**	-
Loss on disposal of property, plant and equipment	**-**	(1)	**-**	-
General insurance commissions	**4**	5	**-**	2
Derivatives held for risk management purposes	**24**	-	**-**	-
Other	**-**	8	**-**	7
Total other non-interest income	**30**	15	**-**	9
Total non-interest income	**620**	528	**155**	144

Note 4 Operating expenses

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Salaries and other staff expenses				
Salaries and wages	**326**	315	**29**	52
Employee entitlements	**9**	9	**-**	-
Superannuation costs:				
Defined contribution scheme	**21**	21	**2**	3
Defined benefit scheme (refer to Note 35)	**-**	(4)	**-**	-
Share-based payments	**5**	3	**-**	-
Restructuring costs	**6**	6	**-**	1
Other	**9**	8	**-**	1
Total salaries and other staff expenses	**376**	358	**31**	57
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities	**-**	-	**-**	6
Other	**52**	48	**-**	2
Depreciation:				
Leasehold improvements	**10**	11	**-**	-
Furniture and equipment	**14**	16	**-**	1
Equipment repairs and maintenance	**5**	7	**-**	-
Electricity, water and rates	**2**	3	**-**	-
Other	**6**	7	**-**	-
Total equipment and occupancy expenses	**89**	92	**-**	9
Other expenses				
Impairment charges on goodwill	**20**	-	**-**	-
Impairment charges on other intangible assets	**13**	-	**-**	-
Impairment charges on property, plant and equipment	**8**	-	**-**	-
Software amortisation costs	**49**	38	**-**	3
Non-lending losses	**3**	3	**-**	-
Consultancy fees and other professional services	**63**	57	**11**	16
Auditors' remuneration (refer to Note 5)	**2**	2	**1**	1
Stationery	**13**	16	**-**	2
Postage and freight	**17**	17	**1**	2
Telecommunication costs	**1**	21	**1**	3
Insurance	**-**	-	**-**	-
Advertising	**28**	27	**-**	3
Training	**3**	3	**-**	-
Travel	**8**	9	**2**	2
Outsourcing	**79**	56	**2**	6
Related entities	**24**	29	**17**	53
Other	**18**	8	**4**	3
Total other expenses	**349**	286	**39**	94
Total operating expenses	**814**	736	**70**	160

The NZ Banking Group made donations of $144,000 during the year ended 30 September 2008 (30 September 2007: $172,000).

Note 5 Auditors' remuneration

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$'000	$'000	**$'000**	$'000
Auditor of the parent entity				
Audit services	**1,902**	1,372	**597**	718
Other services:				
Further assurance services	**381**	183	**155**	-
Tax services	**417**	247	**50**	97
Total remuneration for audit and non-audit services	**2,700**	1,802	**802**	815

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	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Collectively assessed provision	**74**	56	**13**	9
Collective write-off	**55**	36	**-**	-
Individually assessed provisions	**65**	15	**-**	-
Individually assessed write-off	**8**	2	**-**	-
Interest adjustments	**(21)**	(18)	**(2)**	(2)
Total impairment charges on loans	**181**	91	**11**	7

Total impairment charges on loans are further analysed by class as follows:

	NZ Banking Group				NZ Branch			
	Year ended 30 September 2008				**Year ended 30 September 2008**			
	Residential Mortgages	**Other Loans for Consumer Purposes**	**Loans for Business Purposes**	**Total**	**Residential Mortgages**	**Other Loans for Consumer Purposes**	**Loans for Business Purposes**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Collectively assessed provision	**10**	**12**	**52**	**74**	**-**	**-**	**13**	**13**
Collective write-off	**-**	**55**	**-**	**55**	**-**	**-**	**-**	**-**
Individually assessed provisions	**23**	**-**	**42**	**65**	**-**	**-**	**-**	**-**
Individually assessed write-off	**2**	**-**	**6**	**8**	**-**	**-**	**-**	**-**
Interest adjustments	**(2)**	**(8)**	**(11)**	**(21)**	**-**	**-**	**(2)**	**(2)**
Total impairment charges on loans	**33**	**59**	**89**	**181**	**-**	**-**	**11**	**11**

	NZ Banking Group				NZ Branch			
	Year ended 30 September 2007				Year ended 30 September 2007			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
	$m	$m	$m	$m	$m	$m	$m	$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)
Total impairment charges on loans	18	38	35	91	-	-	7	7

Note 7 Income tax expense

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Income tax expense				
Current tax:				
Current year	**305**	311	**62**	60
Prior year	**(18)**	(11)	**(2)**	(15)
Deferred tax (refer to Notes 17 and 23):				
Current year	**(23)**	(25)	**10**	5
Prior year	**12**	13	**(2)**	13
Change to corporate tax rate [1]	**5**	7	**1**	-
Total income tax expense	**281**	295	**69**	63
Profit before income tax expense	**963**	945	**248**	336
Tax calculated at tax rate of 33%	**318**	312	**82**	111
Income not subject to tax	**(18)**	(16)	**-**	-
Expenses not deductible for tax purposes	**3**	9	**1**	-
Other items	**(21)**	(19)	**(11)**	(46)
Change to corporate tax rate [1]	**5**	7	**1**	-
Prior year adjustments	**(6)**	2	**(4)**	(2)
Total income tax expense	**281**	295	**69**	63

[1] 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 and previous reporting period. The change in tax rate has resulted in a decrease in the net deferred tax asset balance as at 30 September 2008 of $5 million (30 September 2007: $7 million).

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

Note 8 Imputation credit account

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Balance at beginning of the year	**842**	480	**265**	208
Transfers	**-**	-	**-**	1
Imputation credits attached to dividends received during the year	**28**	21	**-**	-
Imputation credits attached to dividends paid during the year	**(61)**	(10)	**-**	-
Income tax payments during the year	**203**	335	**39**	40
Other changes during the year	**(5)**	16	**(15)**	16
Balance at end of the year	**1,007**	842	**289**	265

Note 9 Due from other financial institutions

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Loans and advances to other banks	**1,028**	591	**364**	57
Other	**194**	-	**194**	-
Total due from other financial institutions	**1,222**	591	**558**	57
Due from other financial institutions:				
At call	**194**	58	**194**	57
Term	**1,028**	533	**364**	-
Total due from other financial institutions	**1,222**	591	**558**	57

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

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Other trading securities				
Trading securities	**3,146**	3,784	**1,173**	1,401
Securities purchased under agreement to resell	**381**	124	**381**	124
Total other trading securities	**3,527**	3,908	**1,554**	1,525
Other financial assets designated at fair value	**-**	-	**-**	-
Total other trading securities and other financial assets designated at fair value	**3,527**	3,908	**1,554**	1,525
Trading securities				
Listed				
NZ Government securities	**155**	183	**155**	159
NZ corporate securities	**53**	45	**53**	45
Other	**58**	63	**58**	63
Total listed trading securities	**266**	291	**266**	267
Unlisted				
NZ corporate securities:				
Certificates of deposit	**2,851**	3,391	**878**	1,048
Commercial paper	**29**	102	**29**	86
Total unlisted trading securities	**2,880**	3,493	**907**	1,134
Total trading securities	**3,146**	3,784	**1,173**	1,401

Note 11 Available-for-sale securities

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Listed securities				
Overseas public securities	**35**	-	**-**	-
Total available-for-sale securities	**35**	-	**-**	-

As at 30 September 2008, there were no available-for-sale securities (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	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Balance at beginning of the year	**-**	472	**-**	-
Additions	**109**	53	**-**	-
Disposals (sale and redemption)	**(90)**	(526)	**-**	-
Gains and losses from changes in fair value	**16**	1	**-**	-
Balance at end of the year	**35**	-	**-**	-

Note 12 Loans

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Overdrafts	**1,496**	1,401	**356**	334
Credit card outstandings	**1,149**	1,062	**-**	-
Money market loans	**1,601**	2,085	**1,006**	1,408
Term loans:				
Housing	**31,230**	29,019	**-**	-
Non-housing	**19,597**	16,198	**6,995**	5,234
Other	**821**	806	**563**	621
Total gross loans	**55,894**	50,571	**8,920**	7,597
Provisions for impairment charges on loans	**(325)**	(214)	**(26)**	(14)
Total net loans	**55,569**	50,357	**8,894**	7,583

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

Note 13 Impaired assets

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008	Year ended 30 September 2007	**Year ended 30 September 2008**	Year ended 30 September 2007
	$m	$m	**$m**	$m
Individually impaired assets				
Balance at beginning of the year	**116**	64	**-**	64
Impaired assets vested during the year	**-**	-	**-**	(64)
Movement for the year	**162**	52	**-**	-
Balance at end of the year	**278**	116	**-**	-
Undrawn balance	**-**	-	**-**	-
Interest forgone for the year on the above impaired assets[2]	**8**	-	**-**	-
Restructured assets				
Balance at beginning of the year	**2**	-	**-**	-
Restructured assets vested during the year	**-**	-	**-**	-
Movement for the year	**(2)**	2	**-**	-
Balance at end of the year	**-**	2	**-**	-
Undrawn balance	**-**	-	**-**	-
Interest forgone for the year on the above restructured assets[2]	**-**	-	**-**	-
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	**3,297**	2,644	**-**	2,644
Past due assets vested during the year	**-**	-	**-**	(2,644)
Movement for the year	**(1,073)**	653	**256**	-
Balance at end of the year	**2,224**	3,297	**256**	-
Past due assets 90+ days[1]				
Balance at beginning of the year	**156**	119	**-**	119
Past due assets vested during the year	**-**	-	**-**	(119)
Movement for the year	**204**	37	**1**	-
Balance at end of the year	**360**	156	**1**	-
Undrawn balance	**-**	-	**-**	-
Interest forgone for the year on the above past due assets[2]	**-**	-	**-**	-
Other assets under administration[1]				
Balance at beginning of the year	**-**	-	**-**	-
Assets under administration vested during the year	**-**	-	**-**	-
Movement for the year	**-**	-	**-**	-
Balance at end of the year	**-**	-	**-**	-
Undrawn balance	**-**	-	**-**	-
Individually assessed provisions				
Balance at beginning of the year	**26**	15	**-**	15
Provision vested during the year	**-**	-	**-**	(15)
Movement for the year	**40**	11	**-**	-
Balance at end of the year	**66**	26	**-**	-
Collectively impaired provisions				
Balance at beginning of the year	**213**	157	**19**	157
Provision vested during the year	**-**	-	**-**	(147)
Movement for the year	**74**	56	**13**	9
Balance at end of the year	**287**	213	**32**	19
Total impairment provisions	**353**	239	**32**	19
Provisions for impairment on loans	**325**	214	**26**	14
Provisions for impairment on off-balance sheet credit exposures	**28**	25	**6**	5
Total impairment provisions	**353**	239	**32**	19

1 Past due assets and other assets under administration are not impaired assets.

2 Interest foregone is calculated based on specific loan balances at the average interest rate.

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

As a result of the implementation of the Basel II framework, the NZ Banking Group has restated the total of past due assets 90+ days for 30 September 2007 comparatives. The number previously disclosed was $48 million.

Note 13 Impaired assets (continued)

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

Residential mortgages

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Individually impaired assets				
Balance at beginning of the year	**79**	45	-	45
Impaired assets vested during the year	-	-	-	(45)
Additions	**258**	107	-	-
Amounts written off	**(12)**	(2)	-	-
Returned to performing or repaid	**(135)**	(71)	-	-
Balance at end of the year	**190**	79	-	-
Undrawn balance	-	-	-	-
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	**2,584**	2,076	-	2,076
Past due assets vested during the year	-	-	-	(2,076)
Additions	**8,228**	7,229	-	-
Deletions	**(9,338)**	(6,721)	-	-
Balance at end of the year	**1,474**	2,584	-	-
Past due assets 90+ days[1]				
Balance at beginning of the year	**60**	42	-	42
Past due assets vested during the year	-	-	-	(42)
Additions	**345**	194	-	-
Deletions	**(259)**	(176)	-	-
Balance at end of the year	**146**	60	-	-
Undrawn balance	-	-	-	-
Individually assessed provisions				
Balance at beginning of the year	**15**	5	-	5
Provision vested during the year	-	-	-	(5)
Impairment charges on loans:				
New provisions	**34**	18	-	-
Recoveries	**(11)**	(6)	-	-
Impairment charges on loans written off	**(14)**	(2)	-	-
Balance at end of the year	**24**	15	-	-
Collectively impaired provisions				
Balance at beginning of the year	**20**	13	-	13
Provision vested during the year	-	-	-	(13)
Impairment charges on loans	**10**	7	-	-
Balance at end of the year	**30**	20	-	-
Total impairment provisions	**54**	35	-	-
Provisions for impairment on loans	**54**	35	-	-
Provisions for impairment on off-balance sheet credit exposures	-	-	-	-
Total impairment provisions	**54**	35	-	-

[1] Past due assets and other assets under administration are not impaired assets.

Note 13 Impaired assets (continued)

Other loans for consumer purposes

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	**154**	146	**-**	146
Past due assets vested during the year	**-**	-	**-**	(146)
Additions	**993**	840	**-**	-
Deletions	**(991)**	(832)	**-**	-
Balance at end of the year	**156**	154	**-**	-
Past due assets 90+ days[1]				
Balance at beginning of the year	**15**	11	**-**	11
Past due assets vested during the year	**-**	-	**-**	(11)
Additions	**76**	59	**-**	-
Deletions	**(71)**	(55)	**-**	-
Balance at end of the year	**20**	15	**-**	-
Undrawn balance	**-**	-	**-**	-
Collectively impaired provisions				
Balance at beginning of the year	**49**	40	**-**	40
Provision vested during the year	**-**	-	**-**	(40)
Impairment charges on loans	**12**	9	**-**	-
Balance at end of the year	**61**	49	**-**	-
Total impairment provisions	**61**	49	**-**	-
Provisions for impairment on loans	**61**	49	**-**	-
Provisions for impairment on off-balance sheet credit exposures	**-**	-	**-**	-
Total impairment provisions	**61**	49	**-**	-

1 Past due assets are not impaired assets.

Note 13 Impaired assets (continued)

Loans for business purposes

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Individually impaired assets				
Balance at beginning of the year	**37**	19	**-**	19
Impaired assets vested during the year	**-**	-	**-**	(19)
Additions	**88**	31	**-**	-
Amounts written off	**(27)**	(5)	**-**	-
Returned to performing or repaid	**(10)**	(8)	**-**	-
Balance at end of the year	**88**	37	**-**	-
Undrawn balance	**-**	-	**-**	-
Restructured assets				
Balance at beginning of the year	**2**	-	**-**	-
Restructured assets vested during the year	**-**	-	**-**	-
Additions	**-**	2	**-**	-
Deletions	**(2)**	-	**-**	-
Balance at end of the year	**-**	2	**-**	-
Undrawn balance	**-**	-	**-**	-
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	**559**	422	**-**	422
Past due assets vested during the year	**-**	-	**-**	(422)
Additions	**3,352**	2,595	**256**	-
Deletions	**(3,317)**	(2,458)	**-**	-
Balance at end of the year	**594**	559	**256**	-
Past due assets 90+ days[1]				
Balance at beginning of the year	**81**	66	**-**	66
Past due assets vested during the year	**-**	-	**-**	(66)
Additions	**351**	134	**1**	-
Deletions	**(238)**	(119)	**-**	-
Balance at end of the year	**194**	81	**1**	-
Undrawn balance	**-**	-	**-**	-
Individually assessed provisions				
Balance at beginning of the year	**11**	10	**-**	10
Provision vested during the year	**-**	-	**-**	(10)
Impairment charges on loans:				
New provisions	**52**	11	**-**	-
Recoveries	**(10)**	(8)	**-**	-
Impairment charges on loans written off	**(11)**	(2)	**-**	-
Balance at end of the year	**42**	11	**-**	-
Collectively impaired provisions				
Balance at beginning of the year	**144**	104	**19**	104
Provision vested during the year	**-**	-	**-**	(94)
Impairment charges on loans	**52**	40	**13**	9
Balance at end of the year	**196**	144	**32**	19
Total impairment provisions	**238**	155	**32**	19
Provisions for impairment on loans	**210**	130	**26**	14
Provisions for impairment on off-balance sheet credit exposures	**28**	25	**6**	5
Total impairment provisions	**238**	155	**32**	19

1 Past due assets and other assets under administration are not impaired assets.

Note 14 Credit quality

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

Analysis by class

NZ Banking Group 2008	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Value $m
Residential mortgages	**29,420**	**1,620**	**190**	**31,230**	**54**	**31,176**
Other loans for consumer purposes	**1,484**	**176**	**-**	**1,660**	**61**	**1,599**
Loans for business purposes	**22,128**	**788**	**88**	**23,004**	**210**	**22,794**
Total	**53,032**	**2,584**	**278**	**55,894**	**325**	**55,569**

NZ Banking Group 2007	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Value $m
Residential mortgages	26,296	2,644	79	29,019	35	28,984
Other loans for consumer purposes	1,366	169	-	1,535	49	1,486
Loans for business purposes	19,338	640	39	20,017	130	19,887
Total	47,000	3,453	118	50,571	214	50,357

NZ Branch 2008	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Value $m
Residential mortgages	-	-	-	-	-	-
Other loans for consumer purposes	-	-	-	-	-	-
Loans for business purposes	**8,663**	**257**	**-**	**8,920**	**26**	**8,894**
Total	**8,663**	**257**	**-**	**8,920**	**26**	**8,894**

NZ Branch 2007	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Value $m
Residential mortgages	-	-	-	-	-	-
Other loans for consumer purposes	-	-	-	-	-	-
Loans for business purposes	7,597	-	-	7,597	14	7,583
Total	7,597	-	-	7,597	14	7,583

Analysis by investment grade

	NZ Banking Group 2008				NZ Branch 2008			
	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m
Residential mortgages	-	**29,420**	-	**29,420**	-	-	-	-
Other loans for consumer purposes	-	**1,484**	-	**1,484**	-	-	-	-
Loans for business purposes	**8,908**	**12,580**	**640**	**22,128**	**7,173**	**1,343**	**147**	**8,663**
Total	**8,908**	**43,484**	**640**	**53,032**	**7,173**	**1,343**	**147**	**8,663**

	NZ Banking Group 2007				NZ Branch 2007			
	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m
Residential mortgages	-	26,296	-	26,296	-	-	-	-
Other loans for consumer purposes	-	1,366	-	1,366	-	-	-	-
Loans for business purposes	9,590	9,407	341	19,338	7,597	-	-	7,597
Total	9,590	37,069	341	47,000	7,597	-	-	7,597

The above analysis excludes past due and impaired assets.

All other financial assets are neither past due nor impaired and do not carry any impairment provisions.

Note 15 Goodwill and other intangible assets

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Goodwill				
Cost	**547**	547	**-**	-
Accumulated impairment	**(20)**	-	**-**	-
Net carrying amount of goodwill	**527**	547	**-**	-
Computer software				
Cost	**255**	361	**2**	3
Accumulated amortisation and impairment losses	**(153)**	(235)	**(2)**	(3)
Net carrying amount of computer software	**102**	126	**-**	-
Total goodwill and other intangible assets	**629**	673	**-**	-

	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**	**-**	**-**	**-**
Additions	**-**	**38**	**38**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation	**-**	**(49)**	**(49)**	**-**	**-**	**-**
Impairment charges	**(20)**	**(13)**	**(33)**	**-**	**-**	**-**
Net carrying amount as at 30 September 2008	**527**	**102**	**629**	**-**	**-**	**-**
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)
Net carrying amount as at 30 September 2007	547	126	673	-	-	-

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 for Westpac New Zealand 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	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Westpac New Zealand	**512**	512	**-**	-
BTFG	**15**	35	**-**	-
Net carrying amount of goodwill	**527**	547	**-**	-

Impairment charge on goodwill

During the current financial year, 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. At the initial public offering, the Overseas Bank 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 (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 16 Property, plant and equipment

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Leasehold improvements				
Cost	**153**	136	**-**	-
Accumulated depreciation and impairment losses	**(107)**	(92)	**-**	-
Net carrying amount of leasehold improvements	**46**	44	**-**	-
Furniture and equipment				
Cost	**200**	216	**3**	129
Assets vested during the year	**-**	-	**-**	(23)
Accumulated depreciation and impairment losses	**(168)**	(171)	**(3)**	(106)
Net carrying amount of furniture and equipment	**32**	45	**-**	-
Total property, plant and equipment	**78**	89	**-**	-

	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	**18**	**3**	**21**	**-**	**-**	**-**
Depreciation	**(10)**	**(14)**	**(24)**	**-**	**-**	**-**
Impairment charges	**(6)**	**(2)**	**(8)**	**-**	**-**	**-**
Net carrying amount as at 30 September 2008	**46**	**32**	**78**	**-**	**-**	**-**
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)
Net carrying amount as at 30 September 2007	44	45	89	-	-	-

Property, plant and equipment under construction

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

Note 17 Deferred tax assets

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**4**	6	**-**	-
Provision for loan impairment	**106**	79	**10**	6
Provision for employee entitlements	**18**	26	**-**	3
Cash flow hedge	**37**	-	**-**	-
Other temporary differences	**5**	7	**-**	2
Other amounts recognised directly in equity	**3**	3	**3**	3
Set off of deferred tax liabilities (refer to Note 23)	**(19)**	(29)	**(13)**	(11)
Balance at end of the year	**154**	92	**-**	3
Movements				
Balance at beginning of the year	**92**	95	**3**	83
Prior year adjustments	**(8)**	(5)	**6**	(5)
Transfer out of deferred tax asset (refer to Note 23)	**-**	5	**-**	5
Transfer out of deferred tax asset during local incorporation	**-**	-	**-**	(73)
Set off of deferred tax liabilities (refer to Note 23)	**(19)**	(29)	**(13)**	(11)
Credited to the income statement	**29**	30	**7**	1
Credited to equity	**67**	3	**-**	3
Change in corporate tax rate (refer to Note 7)	**(7)**	(7)	**(3)**	-
Balance at end of the year	**154**	92	**-**	3

Note 18 Other assets

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Accrued interest receivable	**211**	205	**50**	49
Securities sold not yet delivered	**136**	72	**136**	72
Other assets	**553**	538	**497**	482
Total other assets	**900**	815	**683**	603

Note 19 Due to other financial institutions

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Interest bearing	**295**	510	**295**	503
Non-interest bearing	**2**	360	**2**	360
Total due to other financial institutions	**297**	870	**297**	863
Due to other financial institutions:				
At call	**297**	863	**297**	863
Term	**-**	7	**-**	-
Total due to other financial institutions	**297**	870	**297**	863

Note 20 Deposits

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deposits at fair value				
Certificates of deposit	**4,163**	3,555	**-**	20
Total deposits at fair value	**4,163**	3,555	**-**	20
Deposits at amortised cost				
Non-interest bearing, repayable at call	**2,144**	2,235	**114**	138
Other interest bearing:				
At call	**13,981**	13,146	**3,030**	2,793
Term	**16,063**	14,629	**980**	1,203
Total deposits at amortised cost	**32,188**	30,010	**4,124**	4,134
Total deposits	**36,351**	33,565	**4,124**	4,154

As a result of the vesting of assets and liabilities in Westpac New Zealand (as described in Note 51), the NZ Branch held no retail deposits as at 30 September 2008 (30 September 2007: nil).

Note 21 Other trading liabilities at fair value

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Held for trading				
Securities sold short	**207**	50	**207**	50
Securities sold under agreements to repurchase	**894**	64	**894**	64
Total other trading liabilities	**1,101**	114	**1,101**	114

Note 22 Debt Issues

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Short-term debt				
Commercial paper	**6,517**	9,571	**-**	-
Total short-term debt	**6,517**	9,571	**-**	-
Long-term debt				
Euro medium term notes	**4,585**	2,857	**-**	-
Total long-term debt	**4,585**	2,857	**-**	-
Total debt issues	**11,102**	12,428	**-**	-

Note 23 Deferred tax liabilities

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deferred tax liabilities are attributable to the following:				
Other temporary differences	**19**	11	**19**	11
Amounts recognised directly in equity	**-**	29	**-**	-
Set off of deferred tax assets (refer to Note 17)	**(19)**	(29)	**(13)**	(11)
Balance at end of the year	**-**	11	**6**	-
Movements				
Balance at beginning of the year	**11**	-	**-**	-
Prior year adjustments	**4**	5	**4**	5
Transfer in of deferred tax liability (refer to Note 17)	**-**	5	**-**	5
Set off of deferred tax assets (refer to Note 17)	**(19)**	(29)	**(13)**	(11)
Charged to the income statement	**6**	5	**17**	6
Change to corporate tax rate (refer to Note 7)	**(2)**	1	**(2)**	-
Charged/(credited) to equity	**-**	24	**-**	(5)
Balance at end of the year	**-**	11	**6**	-

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

Note 24 Provisions

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Long service leave	**9**	9	**1**	1
Annual leave and other staff benefits	**39**	33	**5**	7
Non-lending losses	**5**	2	**-**	-
Provisions for impairment on off-balance sheet credit exposures	**28**	24	**7**	5
Total provisions	**81**	68	**13**	13

	Long Service Leave $m	**Annual Leave and Other Staff Benefits $m**	**Non-lending Losses $m**	**Off-balance Sheet Provisions $m**	**Restructuring Provisions $m**	**Total $m**
NZ Banking Group						
Balance as at 1 October 2007	**9**	**33**	**2**	**24**	**-**	**68**
Additional provisions recognised	**1**	**27**	**3**	**4**	**-**	**35**
Utilised during the year	**(1)**	**(21)**	**-**	**-**	**-**	**(22)**
Balance as at 30 September 2008	**9**	**39**	**5**	**28**	**-**	**81**
NZ Branch						
Balance as at 1 October 2007	**1**	**7**	**-**	**5**	**-**	**13**
Additional provisions recognised	**-**	**7**	**-**	**1**	**-**	**8**
Utilised during the year	**-**	**(9)**	**-**	**1**	**-**	**(8)**
Balance as at 30 September 2008	**1**	**5**	**-**	**7**	**-**	**13**

	Long Service Leave $m	Annual Leave and Other Staff Benefits $m	Non-lending Losses $m	Off-balance Sheet Provisions $m	Restructuring Provisions $m	Total $m
NZ Banking Group						
Balance as at 1 October 2006	9	37	7	20	1	74
Provisions vested during the year	-	-	-	-	-	-
Additional provisions recognised	1	25	3	4	6	39
Utilised during the year	(1)	(29)	(8)	-	(7)	(45)
Balance as at 30 September 2007	9	33	2	24	-	68
NZ Branch						
Balance as at 1 October 2006	9	36	7	19	1	72
Provisions vested during the year	(8)	(31)	(4)	(15)	-	(58)
Additional provisions recognised	-	8	-	1	1	10
Utilised during the year	-	(6)	(3)	-	(2)	(11)
Balance as at 30 September 2007	1	7	-	5	-	13

Note 25 Other liabilities

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Accrued interest payable	**471**	442	**16**	18
Securities purchased but not yet delivered	**149**	58	**149**	58
Claims reserves	**13**	12	**-**	-
Credit card loyalty programme	**25**	29	**-**	-
Other liabilities	**423**	166	**240**	13
Total other liabilities	**1,081**	707	**405**	89

Note 26 Subordinated debentures

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Junior subordinated debentures	**798**	660	**798**	660
Fixed Interest Resettable Trust Securities	**-**	730	**-**	730
Total subordinated debentures	**798**	1,390	**798**	1,390

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 27 Priority of financial liabilities in the event of liquidation

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Deposits at amortised cost	**32,188**	30,010	**4,124**	4,134
Deposits at fair value	**4,163**	3,555	**-**	20
Debt issues	**11,102**	12,428	**-**	-
Due to other financial institutions	**297**	870	**297**	863
Other trading liabilities at fair value	**1,101**	114	**1,101**	114
Derivative financial instruments	**4,602**	3,309	**4,602**	3,309
Other liabilities	**1,068**	695	**405**	89
Subordinated debentures	**798**	1,390	**798**	1,390
Due to related entities	**11,307**	8,286	**13,038**	9,320
Total financial liabilities	**66,626**	60,657	**24,365**	19,239

Note 28 Convertible debentures

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Trust preferred securities	**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 29 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 Limited 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	
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 Equity Investments NZ 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
Agri Private Capital Management Limited	Funds management company	Incorporated 21 March 2007
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
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property owning and capital funding company	
Westpac Securities NZ Limited	Funding company	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.

Note 29 Related entities (continued)

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.

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 financial year following the VISA Inc Initial Public Offering ('**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 % of Cards NZ Limited's equity plus one VISA Inc access preference share.

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Balance at beginning of the year	**-**	-	**-**	-
Equity share of net profit	**48**	-	**-**	-
Balance at end of the year	**48**	-	**-**	-

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 year ended 30 September 2008 was nil (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.

The NZ Branch provides loans to members of the NZ Banking Group. Interest is paid on these loans at market rates.

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 year ended 30 September 2008 (30 September 2007: $0.3 million).

The Overseas Bank provides funding to the NZ Branch. Interest is paid on this funding at market rates.

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

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 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.

The NZ Branch enters into derivative transactions with other members of the NZ Banking Group and the Overseas Banking Group in the normal course of business. These transactions are subject to a market standard netting agreement, and as a result, outstanding derivative balances are included in the due from related entities balance on a net basis. 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 financial year, 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 30 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 a $256 million loss (30 September 2007: $97 million gain) while the change in the fair value of hedged items, attributed to the hedge risk was a $254 million gain (30 September 2007: $97 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 material transactions for which cash flow hedge accounting had to be ceased during the year ended 30 September 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.

Note 30 Derivative financial instruments (continued)

	NZ Banking Group 2008 Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Futures	**13,743**	**4**	**-**
Forwards	**10,270**	**5**	**(6)**
Swaps	**224,942**	**2,481**	**(2,479)**
Options	**4,950**	**36**	**(23)**
Foreign exchange derivatives			
Forwards	**34,089**	**1,093**	**(960)**
Swaps	**34,407**	**1,504**	**(716)**
Total held for trading derivatives	**322,401**	**5,123**	**(4,184)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**11,716**	**1**	**(244)**
Foreign exchange derivatives			
Swaps	**-**	**-**	**-**
Total fair value hedging derivatives	**11,716**	**1**	**(244)**
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	**6,280**	**1**	**(174)**
Total cash flow hedging derivatives	**6,280**	**1**	**(174)**
Total derivatives	**340,397**	**5,125**	**(4,602)**

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 and to related entities.

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

Note 30 Derivative financial instruments (continued)

	NZ Branch		
	2008		
	Notional	**Fair Value Asset**	**Fair Value (Liability)**
	$m	**$m**	**$m**
Held for trading derivatives			
Interest rate derivatives			
Futures	**13,743**	**4**	**-**
Forwards	**10,270**	**5**	**(6)**
Swaps	**242,938**	**2,483**	**(2,897)**
Options	**4,950**	**36**	**(23)**
Foreign exchange derivatives			
Forwards	**34,089**	**1,093**	**(960)**
Swaps	**34,407**	**1,504**	**(716)**
Total held for trading derivatives	**340,397**	**5,125**	**(4,602)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	-	-	-
Foreign exchange derivatives			
Swaps	-	-	-
Total fair value hedging derivatives	-	-	-
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	-	-	-
Foreign exchange derivatives			
Swaps	-	-	-
Total cash flow hedging derivatives	-	-	-
Total derivatives	**340,397**	**5,125**	**(4,602)**

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

Note 30 Derivative financial instruments (continued)

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

	NZ Banking Group and NZ Branch							
	2008							
	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)	**8**	**5**	**30**	**27**	**16**	**10**	**3**	**1**
Cash outflows (liabilities)	**3**	**4**	**34**	**28**	**16**	**10**	**4**	**1**

For the year ended 30 September 2008, a loss on cash flow hedges of $3 million was recognised due to hedge ineffectiveness (30 September 2007: $2 million gain) in the NZ Banking Group.

	NZ Banking Group and NZ Branch							
	2007							
	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

Note 31 Interest earning assets and interest bearing liabilities

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Interest earning and discount bearing assets	**62,179**	56,740	**17,956**	15,283
Interest and discount bearing liabilities	**56,406**	51,401	**16,954**	12,916

Note 32 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 32 Fair value of financial instruments (continued)

	NZ Banking Group			
	2008 Carrying Amount $m	**2008 Estimated Fair Value $m**	2007 Carrying Amount $m	2007 Estimated Fair Value $m
Financial assets				
Cash and balances with central banks	**1,286**	**1,286**	1,387	1,387
Due from other financial institutions	**1,222**	**1,222**	591	591
Derivative financial instruments	**5,125**	**5,125**	2,945	2,945
Other trading securities	**3,527**	**3,527**	3,908	3,908
Other financial assets designated at fair value	**-**	**-**	-	-
Available-for-sale securities	**35**	**35**	-	-
Loans	**55,569**	**55,477**	50,357	50,005
Life insurance assets	**89**	**89**	81	81
Due from related entities	**2,182**	**2,182**	3,623	2,331
Investment in associate	**48**	**48**	-	-
Other financial assets	**900**	**900**	815	815
Total financial assets	**69,983**	**69,891**	63,707	62,063
Non-financial assets	**889**	**N/A**	901	N/A
Total assets	**70,872**		64,608	
Financial liabilities				
Due to other financial institutions	**297**	**297**	870	870
Deposits at fair value	**4,163**	**4,163**	3,555	3,555
Deposits at amortised cost	**32,188**	**32,228**	30,010	30,063
Derivative financial instruments	**4,602**	**4,602**	3,309	3,309
Other trading liabilities at fair value	**1,101**	**1,101**	114	114
Debt issues	**11,102**	**11,214**	12,428	12,366
Other financial liabilities	**1,068**	**1,068**	695	695
Subordinated debentures	**798**	**798**	1,390	1,390
Due to related entities	**11,307**	**11,307**	8,286	6,994
Total financial liabilities	**66,626**	**66,778**	60,657	59,356
Non-financial liabilities	**94**	**N/A**	91	N/A
Total liabilities	**66,720**		60,748	

	NZ Branch			
	2008 Carrying Amount $m	**2008 Estimated Fair Value $m**	2007 Carrying Amount $m	2007 Estimated Fair Value $m
Financial assets				
Cash and balances with central banks	**1,174**	**1,174**	1,283	1,283
Due from other financial institutions	**558**	**558**	57	57
Derivative financial instruments	**5,125**	**5,125**	2,945	2,945
Other trading securities	**1,554**	**1,554**	1,525	1,525
Other financial assets designated at fair value	**-**	**-**	-	-
Available-for-sale securities	**-**	**-**	-	-
Loans	**8,894**	**8,895**	7,583	7,579
Due from related entities	**7,787**	**7,787**	7,902	7,902
Other financial assets	**683**	**683**	603	603
Total financial assets	**25,775**	**25,776**	21,898	21,894
Non-financial assets	**67**	**N/A**	3	N/A
Total assets	**25,842**		21,901	
Financial liabilities				
Due to other financial institutions	**297**	**297**	863	863
Deposits at fair value	**-**	**-**	20	20
Deposits at amortised cost	**4,124**	**4,130**	4,134	4,129
Derivative financial instruments	**4,602**	**4,602**	3,309	3,309
Other trading liabilities at fair value	**1,101**	**1,101**	114	114
Debt issues	**-**	**-**	-	-
Other financial liabilities	**405**	**405**	89	89
Subordinated debentures	**798**	**798**	1,390	1,390
Due to related entities	**13,038**	**13,038**	9,320	9,320
Total financial liabilities	**24,365**	**24,371**	19,239	19,234
Non-financial liabilities	**19**	**N/A**	17	N/A
Total liabilities	**24,384**		19,256	

Note 32 Fair value of financial instruments (continued)

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 income statement during the financial year in the NZ Banking Group and the NZ Branch was nil (30 September 2007: nil).

Note 33 Commitments and contingent liabilities

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

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

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

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

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

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

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Commitments for capital expenditure				
Due within one year	**47**	36	**-**	-
Other expenditure commitments:				
One year or less	**67**	53	**-**	-
Between one and five years	**67**	103	**-**	-
Over five years	**-**	-	**-**	-
Total other expenditure commitments	**134**	156	**-**	-
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**228**	199	**-**	-
Motor vehicles	**4**	3	**-**	-
Total lease commitments	**232**	202	**-**	-
Lease commitments are due as follows:				
One year or less	**42**	36	**-**	-
Between one and five years	**97**	94	**-**	-
Over five years	**93**	72	**-**	-
Total lease commitments	**232**	202	**-**	-
Contingent liabilities				
Direct credit substitutes	**310**	273	**258**	211
Transaction related contingent items	**740**	597	**460**	315
Underwriting and sub-underwriting facilities	**-**	98	**-**	98
Short-term, self liquidating trade related contingent liabilities	**889**	793	**101**	107
Total contingent liabilities	**1,939**	1,761	**819**	731

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. Following the review, the NZIRD issued amended assessments for the 1999 to 2005 tax years in relation to nine transactions undertaken between 1999 and 2002. The overall primary tax in dispute is approximately $588 million. With interest (net of tax) this increases to approximately $882 million, (calculated to 30 September 2008).

Proceedings disputing all amended assessments have been commenced. 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.

Note 33 Commitments and contingent liabilities (continued)

There are no further transactions or tax years subject to the review (other than the transaction in relation to which the NZ Banking Group received the binding ruling).

The New Zealand Commerce Commission's proceedings against Westpac New Zealand and The Warehouse Financial Services Limited (members of the NZ Banking Group) are ongoing. Visa International, Cards NZ Limited, MasterCard International and all New Zealand issuers of Visa and MasterCard credit cards are also defendants. 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, similar proceedings issued by a number of New Zealand retailers against the same defendants are also 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 and at this stage does not consider it necessary to raise a provision in relation to this matter.

Westpac New Zealand leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require Westpac New Zealand, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by Westpac New Zealand upon vacation of all leased premises subject to these provisions as at 30 September 2008 is estimated to be $21 million (30 September 2007: $21 million). Westpac New Zealand 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 30 September 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.

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 in accordance with Reserve Bank guidelines.

Note 34 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.

Note 34 Segment information (continued)

	NZ Banking Group			
	Year ended 30 September 2008			
	New Zealand Retail $m	Institutional Banking $m	Other Banking $m	Total $m
Revenue from external customers	4,606	894	507	6,007
Internal revenue	(207)	99	108	-
Total segment revenue	4,399	993	615	6,007
Interest income	4,190	768	429	5,387
Interest expense	(1,711)	(285)	(1,665)	(3,661)
Internal charges[1]	(1,321)	(381)	1,314	(388)
Net interest income	1,158	102	78	1,338
Net non-interest income	416	126	78	620
Internal charges[1]	8	(7)	(1)	-
Net operating income	1,582	221	155	1,958
Depreciation	(24)	-	-	(24)
Other operating expenses	(602)	(32)	(42)	(676)
Internal charges[1]	(17)	(7)	-	(24)
Amortisation	(49)	-	-	(49)
Impairment on goodwill	-	-	(20)	(20)
Impairment charges on intangible assets	-	-	(13)	(13)
Impairment charges on property, plant and equipment	(8)	-	-	(8)
Total operating expenses	(700)	(39)	(75)	(814)
Impairment charges on loans	(169)	(11)	(1)	(181)
Profit before income tax expense	713	171	79	963
Income tax expense				(281)
Profit attributable to minority interests				(3)
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group				679
Total external assets excluding tax	47,710	14,079	6,719	68,508
Intragroup assets				2,182
Tax assets				182
Total assets				70,872
Total external liabilities excluding tax	28,170	8,059	19,184	55,413
Intragroup liabilities				11,307
Tax liabilities				-
Total liabilities				66,720
Acquisition of property, plant and equipment and intangible assets	59	-	-	59

1 Internal charges are eliminated at the ultimate parent level.

Note 34 Segment information (continued)

	NZ Banking Group			
	Year ended 30 September 2007			
	New Zealand Retail	Institutional Banking	Other Banking	Total
	$m	$m	$m	$m
Revenue from external customers	3,903	705	520	5,128
Internal revenue	(30)	110	(77)	3
Total segment revenue	3,873	815	443	5,131
Interest income	3,486	610	507	4,603
Interest expense	(1,350)	(264)	(1,401)	(3,015)
Internal charges[1]	(1,112)	(248)	1,016	(344)
Net interest income	1,024	98	122	1,244
Net non-interest income	417	95	13	525
Internal charges[1]	6	(3)	-	3
Net operating income	1,447	190	135	1,772
Depreciation and amortisation	(65)	-	-	(65)
Other operating expenses	(612)	(27)	(3)	(642)
Internal charges[1]	(5)	(11)	(13)	(29)
Total operating expenses	(682)	(38)	(16)	(736)
Impairment charges on loans	(81)	(4)	(6)	(91)
Profit before income tax expense	684	148	113	945
Income tax expense				(295)
Profit attributable to minority interests				(4)
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group				646
Total external assets excluding tax	43,836	10,887	6,123	60,846
Intragroup assets				3,623
Tax assets				139
Total assets				64,608
Total external liabilities excluding tax	25,547	6,675	20,229	52,451
Intragroup liabilities				8,286
Tax liabilities				11
Total liabilities				60,748
Acquisition of property, plant and equipment and intangible assets	56	-	-	56

[1] Internal charges are eliminated at the ultimate parent level.

Secondary reporting – geographic segments

The NZ Banking Group operates predominantly within New Zealand.

Note 35 Superannuation commitments

The NZ Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the NZ Banking Group as required. An actuarial valuation of the scheme is undertaken periodically, with the last full valuation being undertaken as at 30 June 2008. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and are based on annual 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 year ended 30 September 2008 were $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	
	2008	2007
	$m	$m
Present value of wholly unfunded obligations	**117**	110
Fair value of plan assets	**(74)**	(99)
Present value of net obligations	**43**	11
Actuarial (losses)/gains not recognised in the balance sheet	**(20)**	13
Net liability recognised in the balance sheet	**23**	24
Represented by the following amounts in the balance sheet:		
Liabilities	**23**	24
Net liability recognised in the balance sheet	**23**	24

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

Note 35 Superannuation commitments (continued)

	NZ Banking Group and NZ Branch	
	2008 **$m**	2007 $m
Movements in the net asset recognised in the balance sheet		
Net asset at beginning of the year	**24**	29
Net expense recognised in the income statement	**-**	(4)
Contributions paid	**(1)**	(1)
Net asset recognised at end of the year	**23**	24
Return on plan assets:		
Expected return on plan assets	**6**	6
Actuarial (losses)/gains on plan assets	**(23)**	2
Actual return on plan assets	**(17)**	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 financial year in respect of the defined benefit superannuation scheme were as follows:

	NZ Banking Group and NZ Branch	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m
Current service cost	**1**	1
Interest cost	**5**	5
Expected return on plan assets	**(6)**	(6)
Curtailments / settlements	**-**	(4)
Net defined benefit expense	**-**	(4)

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

	NZ Banking Group and NZ Branch	
	2008 **%**	2007 %
Discount rate at beginning of the year	**4.0**	4.4
Expected rate of return on plan assets at beginning of the year	**6.2**	6.1
Expected increase in average salary of plan members	**3.5**	3.5
Other material actuarial assumptions – pension increases	**2.5**	2.5

Note 36 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	
	Year ended 30 September 2008 $'000	Year ended 30 September 2007 $'000
Salaries and other short-term benefits	**7,998**	7,777
Post-employment benefits	**574**	584
Other termination benefits	**150**	1,090
Share-based payment	**864**	1,977
Total key management compensation	**9,586**	11,428

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 2008 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 30 September 2008, no provisions have been recognised in respect of loans given to key management and their related parties (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 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 30 September 2008, the NZ Banking Group had securitised assets amounting to $596 million (30 September 2007: $608 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.

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, custodial 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.

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 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, 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 on 1 November 2006 and Westpac New Zealand commenced trading as a registered bank on that date. The home loan mortgages held by the NZ Banking Group vested in Westpac New Zealand from that date and any additional home loan mortgages will be purchased by the HLT from Westpac New Zealand 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:

	2008	2007
	$m	$m
Private and priority	**738**	780
Retirement plans	**252**	327
Retail unit trusts	**1,893**	1,550
Wholesale unit trusts	**100**	415
Total funds under management	**2,983**	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 difficulties arising from 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.

Note 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

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 38 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:

	2008 $m	2007 $m
Total asset	**93**	83

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

Note 39 Capital adequacy

Overseas Banking Group capital adequacy ratio

Basel II

	2008 %
Overseas Banking Group	
Tier One Capital expressed as a percentage of risk-weighted exposures (unaudited)	**7.8**
Total Capital expressed as a percentage of risk-weighted exposures (unaudited)	**10.8**
Overseas Bank (Extended Licensed Entity)	
Tier One Capital expressed as a percentage of risk-weighted exposures (unaudited)	**7.9**
Total Capital expressed as a percentage of risk-weighted exposures (unaudited)	**11.4**

Basel I

	2007 %
Overseas Banking Group	
Tier One Capital expressed as a percentage of risk-weighted exposures	6.5
Total Capital expressed as a percentage of risk-weighted exposures	9.5
Overseas Bank	
Tier One Capital expressed as a percentage of risk-weighted exposures	6.6
Total Capital expressed as a percentage of risk-weighted exposures	10.1

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 and AMA methodologies. 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 detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny on these processes.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) (as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2008. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

As a highly rated authorised deposit taking institution, the Overseas Banking Group's capital management strategy seeks to ensure that the enterprise is strongly capitalised relative to the risks in its portfolio. Ensuring that the Overseas Banking Group's balance sheet structure is prudent and flexible has led to the following long-term operating principles:

- the Overseas Banking Group seeks to manage capital within target ranges with the lower limits taking account of regulatory requirements and ratings agency guidance;
- the Overseas Banking Group's target ranges are intended to be consistent with a 'AA' senior debt rating; and
- the Overseas Banking Group actively manages the deployment of capital within the legal entities that make up the Overseas Banking Group to ensure capital ratios are within ranges and other requirements are met.

The Overseas Banking Group reviews its target capital ranges each year. For the foreseeable future, the Overseas Banking Group will seek to maintain conservative levels of capital.

Note 40 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, a member of the NZ Banking Group, is a locally incorporated registered bank. Westpac New Zealand's risk management framework is closely aligned with that of the Overseas Banking Group; however, the Board of Westpac New Zealand is responsible for risk management of that bank and its subsidiaries. For further information on the risk management policies applying to Westpac New Zealand, refer to Westpac New Zealand'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 Board and implemented through the Chief Executive Officer for Westpac New Zealand ('**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.

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 four broad categories of risk:

- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations to the NZ Banking Group.
- 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.

Note 40 Risk management overview (continued)

  - 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 the decline in the value of equity instruments due to changes in their equity market processes or implied volatilities.
- Operational and compliance risk: the risk that arises from inadequate or failed processes, people and systems or from external events, and the risk of failing to comply with the NZ Banking Group's obligations under the law.
- Liquidity risk: the risk of the NZ Banking Group's not meeting its payment obligations, which could arise as a result of mismatched cash flows generated by the business of the NZ Banking Group.

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 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.

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

Reviews in respect of risk management systems

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

Note 41 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 42 Liquidity risk

Liquidity risk is the potential inability of the NZ Banking Group to meet its payment obligations. 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**'), the Group BRMC, and the Group Banking Book Risk Committee. 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.

Note 42 Liquidity risk (continued)

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;
- funding risk analysis; and
- allocation of funding costs.

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.

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 30 September 2008, the NZ Banking Group held liquid assets of $5,099 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 42 Liquidity risk (continued)

	NZ Banking Group						
	2008						
	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
Assets							
Cash and balances with central banks	**1,286**	**-**	**-**	**-**	**-**	**-**	**1,286**
Due from other financial institutions	**558**	**3**	**607**	**76**	**-**	**-**	**1,244**
Derivative financial instruments:							
Held for trading	**4,114**	**1,009**	**-**	**-**	**-**	**-**	**5,123**
Held for hedging purposes (net settled)	**-**	**9**	**9**	**(16)**	**-**	**-**	**2**
Held for hedging purposes (gross settled):							
Cash outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash inflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other trading securities	**3,527**	**-**	**-**	**-**	**-**	**-**	**3,527**
Other financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Available-for-sale securities	**-**	**-**	**-**	**-**	**35**	**-**	**35**
Loans	**1,656**	**1,635**	**4,631**	**3,812**	**13,972**	**93,301**	**119,007**
Life insurance assets	**64**	**16**	**-**	**-**	**1**	**8**	**89**
Due from related entities:							
Non-derivative balances	**318**	**-**	**-**	**-**	**-**	**-**	**318**
Derivative financial instruments:							
Held for trading	**578**	**1,286**	**-**	**-**	**-**	**-**	**1,864**
Held for hedging purposes (net settled)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Held for hedging purposes (gross settled):							
Cash outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash inflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investment in associate	**-**	**-**	**-**	**-**	**48**	**-**	**48**
Other financial assets	**506**	**394**	**-**	**-**	**-**	**-**	**900**
Total undiscounted assets	**12,607**	**4,352**	**5,247**	**3,872**	**14,056**	**93,309**	**133,443**
Liabilities							
Due to other financial institutions	**284**	**5**	**4**	**4**	**-**	**-**	**297**
Deposits at fair value	**4,163**	**-**	**-**	**-**	**-**	**-**	**4,163**
Deposits at amortised cost	**11,869**	**6,436**	**5,959**	**6,167**	**1,317**	**1,087**	**32,835**
Derivative financial instruments:							
Held for trading	**3,317**	**868**	**-**	**-**	**-**	**-**	**4,185**
Held for hedging purposes (net settled)	**-**	**(25)**	**-**	**160**	**301**	**-**	**436**
Held for hedging purposes (gross settled):							
Cash outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash inflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other trading liabilities at fair value	**1,101**	**-**	**-**	**-**	**-**	**-**	**1,101**
Debt issues	**710**	**1,698**	**1,111**	**5,792**	**2,358**	**56**	**11,725**
Other financial liabilities	**-**	**1,045**	**-**	**-**	**-**	**-**	**1,045**
Subordinated debentures	**-**	**-**	**-**	**-**	**-**	**798**	**798**
Due to related entities:							
Non-derivative balances	**7,384**	**-**	**47**	**177**	**1,729**	**1,073**	**10,410**
Derivative financial instruments:							
Held for trading	**417**	**1,397**	**-**	**-**	**-**	**-**	**1,814**
Held for hedging purposes (net settled)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Held for hedging purposes (gross settled):							
Cash outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash inflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total undiscounted liabilities	**29,245**	**11,424**	**7,121**	**12,300**	**5,705**	**3,014**	**68,809**
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	**8,564**	**-**	**-**	**-**	**-**	**-**	**8,564**
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	**6,550**	**-**	**-**	**-**	**-**	**-**	**6,550**
Total undiscounted contingent liabilities and commitments	**15,114**	**-**	**-**	**-**	**-**	**-**	**15,114**

Note 42 Liquidity risk (continued)

	NZ Banking Group						
	2007						
	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
Assets							
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	3,274	-	-	-	-	-	3,274
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
Total undiscounted assets	15,589	2,644	4,876	4,197	12,195	88,330	127,831
Liabilities							
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	2,392	-	-	-	-	-	2,392
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Total undiscounted liabilities	28,739	11,512	10,806	5,861	3,383	1,827	62,128
Total contingent liabilities and commitments							
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
Total undiscounted contingent liabilities and commitments	14,507	-	-	-	-	-	14,507

Note 42 Liquidity risk (continued)

	NZ Branch						
	2008						
	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
Assets							
Cash and balances with central banks	1,174	-	-	-	-	-	1,174
Due from other financial institutions	558	-	-	-	-	-	558
Derivative financial instruments:							
Held for trading	4,116	1,009	-	-	-	-	5,125
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading securities	1,554	-	-	-	-	-	1,554
Other financial assets designated at fair value	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	1,008	380	911	1,795	5,783	229	10,106
Life insurance assets	-	-	-	-	-	-	-
Due from related entities:							
Non-derivative balances	4,954	-	-	532	-	-	5,486
Derivative financial instruments:							
Held for trading	1,015	1,286	-	-	-	-	2,301
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other financial assets	506	177	-	-	-	-	683
Total undiscounted assets	14,885	2,852	911	2,327	5,783	229	26,987
Liabilities							
Due to other financial institutions	284	5	4	4	-	-	297
Deposits at fair value	-	-	-	-	-	-	-
Deposits at amortised cost	2,119	1,357	394	274	26	3	4,173
Derivative financial instruments:							
Held for trading	3,734	868	-	-	-	-	4,602
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other trading liabilities at fair value	1,101	-	-	-	-	-	1,101
Debt issues	-	-	-	-	-	-	-
Other financial liabilities	-	405	-	-	-	-	405
Subordinated debentures	-	-	-	-	-	-	-
Due to related entities:							
Non-derivative balances	8,666	-	46	131	1,934	1,073	11,850
Derivative financial instruments:							
Held for trading	706	1,397	-	-	-	-	2,103
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Total undiscounted liabilities	16,610	4,032	444	409	1,960	1,076	24,531
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,104	-	-	-	-	-	3,104
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,251	-	-	-	-	-	2,251
Total undiscounted contingent liabilities and commitments	5,355	-	-	-	-	-	5,355

Note 42 Liquidity risk (continued)

	NZ Branch						
	2007						
	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
Assets							
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
Total undiscounted assets	14,747	1,430	1,046	2,972	5,629	694	26,518
Liabilities							
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 at fair value	114	-	-	-	-	-	114
Debt issues	-	-	-	-	-	-	-
Other financial liabilities	-	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	-	-	-	-	-	-	-
Total undiscounted liabilities	16,040	1,651	573	115	426	1,826	20,631
Total contingent liabilities and commitments							
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
Total undiscounted contingent liabilities and commitments	5,199	-	-	-	-	-	5,199

Note 43 Concentration of funding

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Funding consists of				
Due to other financial institutions	**297**	870	**297**	863
Deposits at fair value	**4,163**	3,555	**-**	20
Deposits at amortised cost	**32,188**	30,010	**4,124**	4,134
Debt issues[1]	**11,102**	12,428	**-**	-
Subordinated debentures	**798**	1,390	**798**	1,390
Due to related entities	**11,307**	8,286	**13,038**	9,320
Total funding	**59,855**	56,539	**18,257**	15,727
Analysis of funding by product				
Saving accounts	**6,909**	6,421	**6**	-
Certificates of deposits	**4,163**	3,555	**-**	20
Demand deposits	**6,814**	8,960	**2,262**	2,931
Other deposits and borrowings	**29,567**	27,057	**1,856**	1,203
Subordinated debentures	**798**	1,390	**798**	1,390
Subtotal	**48,251**	47,383	**4,922**	5,544
Due to other financial institutions	**297**	870	**297**	863
Due to related entities	**11,307**	8,286	**13,038**	9,320
Total funding	**59,855**	56,539	**18,257**	15,727
Analysis of funding by geographical areas[1]				
New Zealand	**45,582**	38,814	**15,622**	11,619
Australia and Asia-Pacific	**2,373**	4,859	**1,837**	3,448
United Kingdom and Europe	**5,871**	5,212	**-**	-
North America	**6,029**	7,654	**798**	660
Total funding	**59,855**	56,539	**18,257**	15,727
Analysis of funding by industry and economic sector				
Accommodation, cafes and restaurants	**120**	140	**19**	24
Agriculture, forestry and fishing	**1,462**	1,359	**136**	198
Construction	**441**	480	**81**	94
Finance and insurance	**18,371**	19,604	**2,003**	3,127
Government administration and defence	**576**	891	**207**	392
Manufacturing	**1,017**	964	**291**	249
Mining	**21**	28	**1**	2
Property	**4,415**	4,758	**499**	637
Services	**3,245**	3,565	**585**	697
Trade	**839**	1,063	**151**	161
Transport and storage	**501**	482	**92**	108
Utilities	**797**	338	**393**	148
Retail lending	**15,817**	14,235	**468**	485
Other	**926**	346	**293**	85
Subtotal	**48,548**	48,253	**5,219**	6,407
Due to related entities	**11,307**	8,286	**13,038**	9,320
Total funding	**59,855**	56,539	**18,257**	15,727

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

Note 44 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 two approaches to managing credit risk based on the nature of the customer and product:

- **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 the NZ Banking Group holds 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.

For both approaches, the assignment of CRGs, PDs and LGDs is reviewed at least annually.

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 Standard & Poor's 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 44 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	Standard & Poor's Rating
Strong	A	Aaa – Aa3	AAA – AA-
	B	A1 – A3	A+ – A-
	C	Baa1 – Baa3	BBB+ – BBB-
Good/Satisfactory	D	Ba1 – B1	BB+ – B+
Weak	E – G	Not applicable	Not applicable

Non-defaulting customers watchlist

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

Defaulting customers

Financial Statement Disclosure	The NZ Banking Group CRG	Definition
Weak/Default	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 44 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, business lending and specialised lending)

Types of exposure included in the portfolio

Corporate, sovereign and banking exposures include:

- direct lending;
- contingent lending;
- pre-settlement;
- foreign currency settlement; and
- other intraday settlement obligations.

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 ('PD')

The PD is an assessment of the likelihood of a customer defaulting on its financial obligations within one year. The NZ Banking Group reflects its PD estimate in a customer risk grade ('**CRG**').

(ii) Loss Given Default ('LGD')

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

(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, small business 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
Residential mortgages	■ Mortgages
Small business	■ Equipment finance ■ Business overdrafts ■ Business term loans ■ Business credit cards
Other retail	■ Credit cards ■ Personal loans ■ Overdrafts

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.

(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.

Note 44 Credit risk (continued)

(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.

(c) Reconciling financial statement and regulatory capital disclosure

The financial statement category 'loans for business purposes' includes all transaction-managed asset classes and small business asset class. 'Residential mortgages' are defined consistently for financial statement and regulatory capital disclosure purposes. 'Other loans for consumer purposes' in the financial statement disclosure is classified as 'Other retail' for regulatory capital disclosure purposes.

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 44 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 Order.

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.

The NZ Banking Group and NZ Branch's credit risk management practice as disclosed in this note is consistent with the Overseas Banking Group's practice. The Overseas Banking Group is accredited to apply the Advanced IRB and AMA methodologies under Basel II. However, under the Order, the NZ Banking Group and NZ Branch are required to disclose capital under the Basel I approach as outlined in the table below.

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Banking Group		
	2008		
	Principal Amount $m	Risk Weighting	Risk-weighted Exposure $m
Cash and short-term claims on government	1,684	0%	-
Long-term claims on government	146	10%	15
Claims on banks	4,134	20%	827
Claims on public sector entities	130	20%	26
Residential mortgages	31,216	50%	15,608
Other assets	25,755	100%	25,755
Non-risk-weighted assets	7,807		
Total on-balance sheet exposures	70,872		42,231

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk-weighted Exposure $m
Securitised mortgages	596	50%	298
Total off-balance sheet securitised mortgage exposures	596		298

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk-weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	310	100%	310	82%	254
Total direct credit substitutes	310		310		254
Commitments					
Commitments with certain drawdown	47	100%	47	20%	9
Housing loan commitments with certain drawdown	180	100%	180	50%	90
Transaction related contingent items	740	50%	370	92%	339
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Short-term, self liquidating trade related contingent liabilities	889	20%	178	100%	178
Other commitments to provide financial services which have an original maturity of one year or more	8,564	50%	4,282	69%	2,935
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,550	0%	-	0%	-
Total commitments	16,970		5,057		3,551
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	69,597		2,601	50%	1,301
Swaps	34,301		2,838	22%	629
Interest rate contracts:					
Forwards	10,248		5	40%	2
Futures	15,051		-	0%	-
Options	5,230		36	42%	15
Swaps	242,941		3,255	27%	882
Total market related contracts (derivatives)	377,368		8,735		2,829
Total off-balance sheet and derivative exposures	394,648		14,102		6,634
Total risk-weighted exposures					49,163

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Banking Group 2007 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	7,033		
Total on-balance sheet exposures	64,608		37,875

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk-weighted Exposure $m
Securitised mortgages	608	50%	304
Total off-balance sheet securitised mortgage exposures	608		304

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk-weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	273	100%	273	79%	216
Total direct credit substitutes	273		273		216
Commitments					
Commitments with certain drawdown	36	100%	36	20%	7
Housing loan commitments with certain drawdown	186	100%	186	50%	93
Transaction related contingent items	597	50%	298	90%	268
Underwriting and sub-underwriting facilities	98	50%	50	90%	45
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%	-
Total commitments	16,217		4,787		3,291
Market related contracts (derivatives)					
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
Total market related contracts (derivatives)	339,234		6,122		2,199
Total off-balance sheet and derivative exposures	355,724		11,182		5,706
Total risk-weighted exposures					43,885

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch		
	2008		
	Principal Amount $m	Risk Weighting	Risk-weighted Exposure $m
Cash and short-term claims on government	1,555	0%	-
Long-term claims on government	146	10%	15
Claims on banks	1,492	20%	298
Claims on public sector entities	185	20%	37
Residential mortgages	-	50%	-
Other assets	14,972	100%	14,972
Non-risk-weighted assets	7,492		
Total on-balance sheet exposures	**25,842**		**15,322**

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk-weighted Exposure $m
Securitised mortgages	-	50%	-
Total off-balance sheet securitised mortgage exposures	**-**		**-**

Calculation of off-balance sheet and derivative exposures

	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk-weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	258	100%	258	77%	199
Total direct credit substitutes	**258**		**258**		**199**
Commitments					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	460	50%	230	87%	200
Underwriting and sub-underwriting facilities	-	50%	-	100%	-
Short-term, self liquidating trade related contingent liabilities	101	20%	20	100%	20
Other commitments to provide financial services which have an original maturity of one year or more	3,104	50%	1,552	89%	1,381
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,251	0%	-	0%	-
Total commitments	**5,916**		**1,802**		**1,601**
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	69,597		2,601	50%	1,301
Swaps	43,572		3,158	22%	693
Interest rate contracts:					
Forwards	10,248		5	40%	2
Futures	15,051		-	0%	-
Options	5,230		36	42%	15
Swaps	292,724		3,375	27%	908
Total market related contracts (derivatives)	**436,422**		**9,175**		**2,919**
Total off-balance sheet and derivative exposures	**442,596**		**11,235**		**4,719**
Total risk-weighted exposures					**20,041**

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch 2007 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				
Total on-balance sheet exposures	21,901				12,985
Calculation of off-balance sheet securitised mortgage exposures					
Securitised mortgages	-			50%	-
Total off-balance sheet securitised mortgage exposures	-				-
Calculation of off-balance sheet and derivative exposures					
	Principal Amount $m	Credit Conversion Factor	Credit Equivalent Amount $m	Average Counterparty Risk Weighting	Risk-weighted Exposure $m
Direct credit substitutes					
Standby letters of credit and financial guarantees	211	100%	211	73%	154
Total direct credit substitutes	211		211		154
Commitments					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	315	50%	157	84%	132
Underwriting and sub-underwriting facilities	98	50%	50	84%	41
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%	-
Total commitments	5,719		1,897		1,679
Market related contracts (derivatives)					
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
Total market related contracts (derivatives)	371,336		6,756		2,333
Total off-balance sheet and derivative exposures	377,266		8,864		4,166
Total risk-weighted exposures					17,151

Additional mortgage information

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

NZ Banking Group – Residential mortgages by LVR as at 30 September 2008

LVR range	0-80%	80-90%	Over 90%
Value of exposures	**23,706**	**5,230**	**2,681**

Note 45 Concentration of credit exposures

	NZ Banking Group		NZ Branch	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
On-balance sheet credit exposures consists of				
Cash and balances with central banks	**1,286**	1,387	**1,174**	1,283
Due from other financial institutions	**1,222**	591	**558**	57
Derivative financial instruments	**5,125**	2,945	**5,125**	2,945
Other trading securities	**3,527**	3,908	**1,554**	1,525
Loans	**55,569**	50,357	**8,894**	7,583
Life insurance assets	**89**	81	**-**	-
Due from related entities	**2,182**	3,623	**7,787**	7,902
Other assets	**900**	815	**683**	603
Total on-balance sheet credit exposures	**69,900**	63,707	**25,775**	21,898
Analysis of on-balance sheet credit exposures by geographical areas				
Within New Zealand	**66,102**	58,972	**24,555**	18,300
Australia and Asia-Pacific	**3,798**	4,609	**1,220**	3,598
United Kingdom and Europe	**-**	126	**-**	-
Total on-balance sheet credit exposures	**69,900**	63,707	**25,775**	21,898
Analysis of on-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**205**	222	**6**	8
Agriculture, forestry and fishing	**5,067**	4,320	**830**	954
Construction	**424**	430	**114**	109
Finance and insurance	**12,801**	9,454	**9,321**	5,435
Government administration and defence	**1,768**	1,832	**1,490**	1,559
Manufacturing	**1,616**	2,154	**802**	1,366
Mining	**285**	293	**211**	212
Property	**5,685**	5,309	**666**	787
Services	**2,203**	1,468	**1,338**	824
Trade	**2,465**	2,169	**1,378**	655
Transport and storage	**994**	788	**471**	374
Utilities	**830**	650	**624**	472
Retail lending	**33,147**	30,671	**266**	773
Subtotal	**67,490**	59,760	**17,517**	13,528
Provisions for impairment on loans	**(325)**	(214)	**(26)**	(14)
Due from related entities	**2,182**	3,623	**7,787**	7,902
Other assets	**553**	538	**497**	482
Total on-balance sheet credit exposures	**69,900**	63,707	**25,775**	21,898
Off-balance sheet credit and derivative exposures by credit equivalent consists of				
Contingent liabilities and commitments	**5,367**	5,060	**2,060**	2,108
Derivatives	**8,735**	6,122	**9,175**	6,756
Total off-balance sheet credit and derivative exposures by credit equivalent	**14,102**	11,182	**11,235**	8,864
Analysis of off-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**36**	19	**16**	-
Agriculture, forestry and fishing	**265**	184	**127**	122
Construction	**297**	317	**105**	143
Finance and insurance	**5,721**	3,486	**6,326**	4,240
Government administration and defence	**374**	285	**296**	230
Manufacturing	**419**	424	**252**	291
Mining	**136**	139	**130**	135
Property services and business services	**5,527**	5,050	**2,931**	2,652
Services	**-**	1	**-**	-
Trade	**441**	421	**209**	218
Transport and storage	**200**	192	**167**	177
Utilities	**657**	637	**649**	631
Retail lending	**2**	2	**-**	-
Other	**27**	25	**27**	25
Total off-balance sheet credit and derivative exposures by credit equivalent	**14,102**	11,182	**11,235**	8,864

Credit exposure is determined with reference to actual credit exposures.

Australian and New Zealand Standard Industrial Classifications 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 individual bank counterparties (which are not members of a group of closely related counterparties) and groups of closely related counterparties of which a bank is the parent to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the NZ Banking Group's equity:

- as at 30 September 2008 was nil (30 September 2007: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2008 was nil (30 September 2007: nil).

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

- as at 30 September 2008 was nil (30 September 2007: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2008 was nil (30 September 2007: nil).

The peak end-of-day exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2008. Credit exposures used in the above calculations are 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 individually assessed provisions.

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 NZ Banking Group's market risk activities are subject to a Board approved market risk framework that details the responsibilities for the supervision of and measurement of market risk. The Group BRMC has delegated authority from the Board to oversee the risk management framework, monitor the risk profile in accordance with the Board Risk Appetite Statement and oversees the risks inherent in the Overseas Banking Group's operations.

Group MARCO oversees the activities of the NZ Banking Group that give rise to market risk – both traded and non-traded. MARCO also has some delegated authority from the BRMC to approve risk limit changes. Group MARCO reports to the Group BRMC.

At business level, the Banking Book Risk Committee ('**BBRC**') and the Trading Risk Committee ('**TRC**') oversee the respective risks in their area of responsibility. Both these committees report to MARCO. The mechanisms for management of market risk arising from financial markets activities (traded market risk) and the market risks arising from the NZ Banking Group's other banking activities (non-traded market risk) are specified below.

Trading activities

The NZ Banking Group's trading market risks arise as a result of the financial markets business. These activities are subject to a Board approved market risk framework that details the responsibilities for the supervision of and measurement of market risk as well as a Board approved VaR limit for the global financial markets business. Business level oversight of traded market risk is provided by the TRC which reports to MARCO.

The primary mechanism for the control of traded market risk is VaR. The Board level approved VaR limit is allocated via delegated authorities to businesses and geographies including a VaR limit for the NZ Banking Group financial markets business. VaR is an estimate of the potential loss in value of trading positions, to a 99% confidence level, assuming positions were held constant for one day. This means there is a 1% chance that actual losses may be greater than the estimated VaR. Westpac uses the historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily.

Accompanying the VaR limits are lower level structural limits to control exposures to the different risk types. These limits are designed to control undue concentrations of risk and to control market liquidity. Measurement and monitoring of risk is the responsibility of the Market Risk unit.

Note 46 Market risk (continued)

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, the BBRC, 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.

In addition to the net interest income sensitivity, the banking book risk is also subject to a group-wide VaR limit. This limit controls the amount of risk on a marked to market basis that can be taken by Group Treasury on the banking book.

Structural foreign exchange risk

The NZ Banking Group operates a United Kingdom branch (Westpac Securities UK 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. The NZ Banking Group and NZ Branch's exposure to foreign exchange risk is disclosed in Note 48.

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 Reserve Bank document 'Capital adequacy framework (standardised approach)' (BS2 A). The peak-end-of day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2008 (30 September 2007 for comparatives). The as at exposures below have been calculated by determining the maximum end-of-day aggregate market risk as at 30 September 2008, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2008 (30 September 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 Reserve Bank document '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 30 September 2008.

Note 46 Market risk (continued)

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 30 September 2008.

	Implied Risk-weighted Exposure	**Notional Capital Charge**	**Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity**
	$m	**$m**	**%**
End-of-period			
Interest risk	**3,538**	**283**	**1.20**
Foreign currency risk	**13**	**1**	**-**
Equity risk	**38**	**3**	**0.01**
Peak end-of-day			
Interest risk	**4,788**	**383**	**1.62**
Foreign currency risk	**175**	**14**	**0.06**
Equity risk	**38**	**3**	**0.01**

The following table provides a summary of notional capital charges by risk type for the NZ Banking Group as at 30 September 2007.

	Implied Risk-weighted Exposure	Notional Capital Charge	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity
	$m	$m	%
End-of-period			
Interest risk	5,500	440	2.12
Foreign currency risk	38	3	0.01
Equity risk	-	-	-
Peak end-of-day			
Interest risk	10,950	876	4.22
Foreign currency risk	50	4	0.02
Equity risk	-	-	-

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 financial years:

Trading

	NZ Banking Group		**NZ Branch**	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Interest rate risk	**3.4**	0.7	**3.4**	0.7
Volatility risk	**0.3**	0.2	**0.3**	0.2
Net market risk	**3.5**	0.7	**3.5**	0.7

Non-trading

	NZ Banking Group		**NZ Branch**	
	2008	2007	**2008**	2007
	$m	$m	**$m**	$m
Interest rate risk	**0.9**	0.2	**2.0**	1.1

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 the NZ Banking Group policy guidelines.

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2008. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in Note 46.

	NZ Banking Group										
	2008										
	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 %[1]
Financial assets											
Cash and balances with central banks	1,176	-	-	-	-	-	-	-	110	1,286	7.5
Due from other financial institutions	1,028	-	-	-	-	-	-	-	194	1,222	7.5
Derivative financial instruments	-	-	-	-	-	-	-	-	5,125	5,125	-
Other trading securities	3,527	-	-	-	-	-	-	-	-	3,527	7.7
Available-for-sale securities	-	-	-	-	-	-	-	-	35	35	-
Loans	22,122	7,786	9,781	8,310	4,125	2,767	960	43	(325)	55,569	9.4
Life insurance assets	-	-	-	-	-	-	-	-	89	89	-
Due from related entities	-	-	-	-	-	-	-	-	2,182	2,182	-
Investment in associate	-	-	-	-	-	48	-	-	-	48	8.8
Other financial assets	506	-	-	-	-	-	-	-	394	900	7.5
Total financial assets	28,359	7,786	9,781	8,310	4,125	2,815	960	43	7,804	69,983	
Non-financial assets										889	
Total assets										70,872	
Financial liabilities											
Due to other financial institutions	295	-	-	-	-	-	-	-	2	297	7.5
Deposits at fair value	222	2,500	1,424	14	3	-	-	-	-	4,163	7.9
Deposits at amortised cost	19,099	5,531	5,019	276	75	24	19	1	2,144	32,188	6.6
Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-
Other trading liabilities	1,101	-	-	-	-	-	-	-	-	1,101	7.5
Debt issues	7,952	1,036	853	539	362	310	-	50	-	11,102	4.4
Other financial liabilities	-	-	-	-	-	-	-	-	1,081	1,081	-
Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3
Due to related entities	8,794	-	-	61	-	48	-	-	2,404	11,307	7.5
Total financial liabilities	37,463	9,067	7,296	890	440	382	19	849	10,233	66,639	
Non-financial liabilities										81	
Total liabilities										66,720	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	7,360	6,995	(4,200)	(4,753)	(1,997)	(2,143)	(1,246)	(16)	-	-	

[1] The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

Note 47 Interest rate risk (continued)

	NZ Banking Group										
	2007										
	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 %[1]
Financial assets											
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	-
Other trading securities	3,908	-	-	-	-	-	-	-	-	3,908	8.5
Other financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-
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	-
Due from related entities	-	-	-	-	-	-	-	-	3,623	3,623	-
Investment in associate	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	443	-	-	-	-	-	-	-	372	815	8.3
Total financial assets	24,801	5,951	7,179	9,801	4,235	2,019	2,695	59	6,967	63,707	
Non-financial assets										901	
Total assets										64,608	
Financial liabilities											
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	-
Other trading liabilities	114	-	-	-	-	-	-	-	-	114	7.6
Debt issues	3,947	5,326	805	1,165	875	-	310	-	-	12,428	3.6
Other financial liabilities	-	-	-	-	-	-	-	-	695	695	-
Subordinated debentures	-	730	-	-	-	-	-	660	-	1,390	6.6
Due to related entities	5,313	-	-	-	-	-	-	-	2,973	8,286	8.3
Total financial liabilities	28,795	11,952	7,268	1,411	967	15	332	661	9,256	60,657	
Non-financial liabilities										91	
Total liabilities										60,748	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	4,363	9,170	(2,305)	(7,000)	(2,293)	(360)	(1,560)	(15)	-	-	

[1] The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

Note 47 Interest rate risk (continued)

	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 %[1]
	NZ Branch 2008										
Financial assets											
Cash and balances with central banks	1,174	-	-	-	-	-	-	-	-	1,174	7.5
Due from other financial institutions	364	-	-	-	-	-	-	-	194	558	7.5
Derivative financial instruments	-	-	-	-	-	-	-	-	5,125	5,125	-
Other trading securities	1,554	-	-	-	-	-	-	-	-	1,554	7.7
Loans	5,120	3,586	127	20	9	47	4	7	(26)	8,894	8.6
Due from related entities	5,438	-	-	-	-	-	-	-	2,349	7,787	7.5
Other financial assets	506	-	-	-	-	-	-	-	177	683	7.5
Total financial assets	14,156	3,586	127	20	9	47	4	7	7,819	25,775	
Non-financial assets										67	
Total assets										25,842	
Financial liabilities											
Due to other financial institutions	295	-	-	-	-	-	-	-	2	297	7.5
Deposits at fair value	-	-	-	-	-	-	-	-	-	-	-
Deposits at amortised cost	3,457	333	185	28	6	-	-	1	114	4,124	7.6
Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-
Other trading liabilities	1,101	-	-	-	-	-	-	-	-	1,101	7.5
Other financial liabilities	-	-	-	-	-	-	-	-	405	405	-
Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3
Due to related entities	10,750	-	-	-	-	-	-	-	2,288	13,038	7.5
Total financial liabilities	15,603	333	185	28	6	-	-	799	7,411	24,365	
Non-financial liabilities										19	
Total liabilities										24,384	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	1,496	(3,489)	(742)	1,846	1,116	32	(341)	82	-	-	

[1] The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

Note 47 Interest rate risk (continued)

NZ Branch

2007

	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 %[1]
Financial assets											
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
Total financial assets	12,006	3,052	157	16	14	6	3	29	6,615	21,898	
Non-financial assets										3	
Total assets										21,901	
Financial liabilities											
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	-
Other trading liabilities	114	-	-	-	-	-	-	-	-	114	7.6
Debt issues	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	89	89	-
Subordinated debentures	-	730	-	-	-	-	-	660	-	1,390	6.6
Due to related entities	6,533	-	-	-	-	-	-	-	2,787	9,320	9.0
Total financial liabilities	10,865	1,150	187	28	21	4	-	661	6,323	19,239	
Non-financial liabilities										17	
Total liabilities										19,256	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	4,363	9,170	(2,305)	(7,000)	(2,293)	(360)	(1,560)	(15)	-	-	

[1] 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	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Receivable/(payable)				
Australian dollar	**1**	(1)	**1**	(1)
Euro	**-**	-	**-**	-
Great British pound	**1**	1	**1**	1
Japanese yen	**(1)**	-	**(1)**	-
United States dollar	**(10)**	(34)	**(10)**	(34)
Others	**1**	1	**1**	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 NZ Banking Group'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 & 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 Subsequent events

Residential mortgage-backed securitisation

Westpac New Zealand executed a $5 billion internal mortgage-backed securitisation in October 2008. These securities are available for external issuance and the most senior rated securities ($4.75 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank. Holding a portion of mortgages in securitised format enables Westpac New Zealand to maintain a readily available source of cash should market conditions remain difficult. It takes advantage of the Reserve Bank's recently expanded guidelines for its open market operations, which allow banks in New Zealand to offer securitised residential mortgage assets from their own balance sheets as collateral for Reserve Bank repurchase agreements.

Guarantee of deposits by the Australian Government: Financial Claims Scheme

The Australian Government announced on 12 October 2008 that it will guarantee the deposits in eligible ADIs for a period of three years from 12 October 2008. As at the date of this General Disclosure Statement, the Overseas Bank is an ADI.

Until 27 November 2008, the deposit guarantee applied to all deposits held in eligible ADIs (including foreign branches of eligible ADIs, such as the NZ Branch) by all types of legal entities, regardless of where the depositor resides, in any currency (including NZ dollars). Until 27 November 2008, no fee was payable by an ADI for the deposit guarantee.

The Australian Banking Act has been amended to facilitate the deposit guarantee by establishing the FCS to be administered by APRA. The FCS will operate on terms as set out in the Australian Banking Act until 12 October 2011, thereafter its continued operation will be subject to the review by the Australian Government.

An ADI will be an 'eligible ADI' for the purposes of the FCS in circumstances where APRA has applied for the winding-up of the ADI and a declaration has been made by the responsible Australian Government minister that the FCS applies to that ADI. Once declared to be an eligible ADI, there are no other material conditions applicable to coverage of deposits up to A$1 million under the FCS other than that eligible ADI becoming unable to meet its obligations or suspending payment. As at the date of this General Disclosure Statement, APRA has not applied for the winding-up of the Overseas Bank nor has a declaration been made by the responsible Australian Government minister that the FCS applies to the Overseas Bank.

From 28 November 2008, the first A$1 million of 'protected accounts' held with an eligible ADI (including most deposits) will be guaranteed for free under the FCS. The A$1 million threshold applies to the total amount of funds held by a depositor in (separate) deposit accounts with an eligible ADI. An eligible institution will be able to obtain coverage for deposit amounts over A$1 million under the Guarantee Facility (as described more fully below) in return for a fee.

Under the FCS, if APRA has applied for the winding-up of an ADI and a declaration has been made by the responsible Australian Government minister that the FCS applies to that ADI:

i) holders of protected accounts (as defined below) with net credit balances are entitled to payment from APRA of the balance plus accrued interest (subject to certain adjustments); and

ii) APRA is assigned the relevant account holder's right to claim this amount from the ADI.

For the purposes of the FCS, a 'protected account' is:

- an account where the ADI is required to pay the account-holder, on demand or at an agreed time, the net credit balance of the account; and
- another account or financial product prescribed by regulation.

The Financial Claims Scheme (ADIs) Levy Act 2008 also provides for the imposition of a levy to fund the excess of certain of APRA's financial claims scheme costs connected with an ADI over the sum of specified amounts paid to APRA by that ADI in connection with the FCS or in the winding up of that ADI. The levy is imposed on liabilities of ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities.

Further information about the FCS is available from the Australian Treasury's internet site, www.treasury.gov.au. The Australian Banking Act and the Financial Claims Scheme (ADIs) Levy Act 2008 are also available from the following internet site maintained by the Australian Attorney-General's Department, www.comlaw.gov.au.

Note 50 Subsequent events (continued)

Guarantee of large deposits and wholesale term funding by the Australian Government: Guarantee Facility

The Australian Government also announced on 12 October 2008 that it will guarantee wholesale term funding of an eligible institution in return for a fee payable by that institution (see below under the heading "Fees in relation to the Australian Government's final large deposit and wholesale term funding guarantees"). An interim Deed of Guarantee was executed by the Australian Government on 2 November 2008. The interim Deed of Guarantee automatically terminated on 27 November 2008.

On 21 November 2008 the Australian Government released the final details and rules ('**Scheme Rules**') of the guarantee facility for deposits of amounts over A$1 million and wholesale term funding ('**Guarantee Facility**'). The obligations of the Commonwealth of Australia are contained in a deed of guarantee executed on behalf of the Commonwealth of Australia ('**Guarantor**') dated 20 November 2008 and taking effect from 28 November 2008 ('**Guarantee**'). The Scheme Rules govern access to protection under the Guarantee. The Guarantee Facility replaces the interim Deed of Guarantee. The Guarantee and the Scheme Rules are available at www.guaranteescheme.gov.au. A copy of the Guarantee is also included in the NZ Branch's most recent Supplemental Disclosure Statement, which is available, free of charge, at the internet address www.westpac.co.nz and immediately on request at the NZ Branch's head office, Level 15, 188 Quay Street, Auckland. The NZ Branch's most recent Supplemental Disclosure Statement is also available, free of charge, within five working days of any request, at any branch of the NZ Branch.

The Scheme Rules set out those named institutions that are 'eligible institutions' for the purposes of the Guarantee Facility. As at the date of this General Disclosure Statement, the Overseas Bank is named in the Scheme Rules as an eligible institution.

Liabilities will only have the benefit of the Guarantee where an eligibility certificate has been issued by the Commonwealth of Australia in respect of those liabilities. Details of eligibility certificates issued in respect of the liabilities of the Overseas Bank are available on www.guaranteescheme.gov.au/guaranteed-liabilities.

The Overseas Bank is entitled to apply for the issue of an eligibility certificate for certain liabilities (including certain securities to be issued under its established debt issuance programmes) to have the benefit of the Guarantee. The Guarantee Facility will be restricted to senior unsecured liabilities which are not complex and issued domestically in Australia or off-shore of Australia by eligible institutions with a term of up to 60 months with the Guarantee to apply for the full term of the relevant liabilities including in the period following the closure of the facility to new issuances. The facility will be available for debt issuance in all major currencies (including NZ dollars). Guidance on the meaning of 'not complex' is available at www.guaranteescheme.gov.au.

A beneficiary of the Guarantee may rely upon the issue of an eligibility certificate as conclusive evidence that the liability described in the eligibility certificate satisfies the eligibility criteria set out in the Scheme Rules. There are no material conditions applicable to the making of a claim for payment under the Guarantee by a beneficiary of the Guarantee other than the non-performance of the obligations of the eligible institution set out in the applicable eligibility certificate. In the case of a liability of the Overseas Bank, the beneficiary need not be a resident of Australia.

The Australian Government has also announced that it will withdraw the Guarantee Facility by declaration once market conditions have normalized. However, withdrawal of the Guarantee will not affect the obligations of the Commonwealth with respect to any liabilities which have the benefit of the Guarantee at the time of the withdrawal.

Enforcement of the Guarantee

A claim for payment under the Guarantee must be in writing and made in the form specified in, and in accordance with, the Scheme Rules.

If the Guarantor does not perform its obligations under the Guarantee, a beneficiary of the Guarantee could commence proceedings against the Commonwealth of Australia under the Judiciary Act 1903 of Australia ('**Judiciary Act**'). In such proceedings, the rights of parties are, as nearly as possible, the same as in proceedings between subjects of the Commonwealth of Australia. Jurisdiction to hear claims against the Commonwealth of Australia in contract is vested in certain Australian courts under the Judiciary Act. In proceedings under the Judiciary Act, the Guarantor would not be entitled to any defence based on crown or sovereign immunity.

However, if a judgment is obtained against the Guarantor in proceedings under the Judiciary Act, no execution or attachment can be issued against the property or revenues of the Commonwealth of Australia. Nevertheless, if any judgment is given against the Guarantor in such proceedings, the Minister for Finance of the Commonwealth of Australia is obliged to satisfy the judgment out of money legally available, on receipt of a certificate of the judgment issued by an officer of a court in which such judgment has been obtained.

In order to render money legally available, specific appropriation by legislation passed by the Parliament of the Commonwealth of Australia would be necessary before any payment is made, unless the amount involved is such that it could be paid out of funds available under an existing standing appropriation. The Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Act 2008 of Australia provides, among other things, that the Consolidated Revenue Fund of the Commonwealth of Australia is appropriated for the purpose of paying claims under the Guarantee in accordance with the Scheme Rules.

The Guarantee does not contain any submission to the courts of a foreign jurisdiction or any waiver of any crown or sovereign immunity which might be available to the Commonwealth of Australia under the law of any foreign jurisdiction.

Fees in relation to the Australian Government's final large deposit and wholesale term funding guarantees

Fees will apply to the wholesale term funding guarantee and the guarantee for deposits above the A$1 million threshold. A different fee will apply to eligible institutions based on their long term credit rating. The fee which will apply to the Overseas Bank, based on its current long term rating by Standard and Poor's of AA, is 70 basis points (or 0.70%). The fee will be levied on a monthly basis.

Note 50 Subsequent events (continued)

Review of the Australian Government's final large deposit and wholesale term funding guarantees

The Australian Government has announced the final large deposit and wholesale funding guarantee scheme will be reviewed on an ongoing basis and revised if necessary.

Other material conditions of the Guarantee

The following are material conditions to the application of the Guarantee that are separate from the non-performance of an eligible institution in respect of the relevant obligations covered by the Guarantee.

The Guarantor shall not be liable to perform its obligations under the Guarantee in respect of liabilities which have been varied, amended, waived, released, novated, supplemented, extended or restated in any material respect without the written consent of the Guarantor.

The Commonwealth of Australia may also amend the terms of the Guarantee at any time at its discretion, provided that (except insofar as such amendment is required by law) such amendment does not reduce the Commonwealth of Australia's obligations to the beneficiaries under the Guarantee in a manner which is prejudicial to the interests of the beneficiaries in respect of any subsisting guaranteed liability (in particular, see clause 6 of the Guarantee, the form of which is set out in the NZ Branch's Supplemental Disclosure Statement).

It is a material condition to the issue of an eligibility certificate in relation to a liability to be guaranteed under the Guarantee is the issuance of a Counter-Indemnity by the applicant eligible institution in favour of the Guarantor. The Counter-Indemnity must be in the form prescribed by the Scheme Rules or such other form as is approved by the Guarantor (the material conditions of the Counter-Indemnity are described below).

Terms of the Counter-Indemnity

Under the prescribed form of Counter-Indemnity, the applicant eligible institution (in summary):

- indemnifies the Guarantor to the fullest extent permitted by law for all losses incurred (directly or indirectly) by the Guarantor in relation to or arising out of the Guarantee;
- agrees to pay interest on all amounts demanded under the Counter-Indemnity at the daily rate of the 10 year Treasury Bond yield published by the Reserve Bank of Australia plus 1.5% until the amount demanded is paid;
- authorises the Guarantor to make any payments demanded under the Guarantee without reference to the applicant eligible institution;
- agrees to gross up any payment made to the Guarantor under the Counter-Indemnity in respect of any withholding or deductions required to be made;
- agrees to the Guarantor setting-off all amounts owing by it to the applicant eligible institution against all amounts owing by the eligible institution to the Guarantor under the Guarantee; and
- indemnifies the Guarantor for all losses incurred as a consequence of payments made in currencies other than the amount in which they are due.

The Overseas Bank has executed a Counter-Indemnity in favour of the Guarantor which, as at the date of this General Disclosure Statement has not been revoked.

Obligations of the Overseas Bank covered by the Guarantee

As at the date this General Disclosure Statement was signed by the Directors and Chief Executive Officer of the NZ Branch, eligibility certificates have been issued by the Commonwealth of Australia in respect of certain of the Overseas Bank's deposit and wholesale term funding liabilities. Applications have also been made to the Commonwealth of Australia by the Overseas Bank for eligibility certificates to be issued in respect of certain other wholesale term funding liabilities that may be issued by the Overseas Bank in the future pursuant to its established debt issuance programmes. Details of eligibility certificates issued in respect of the liabilities of the Overseas Bank are available on www.guaranteescheme.gov.au/guaranteed-liabilities/.

Information about the Guarantor

The Guarantor's name and address for service is: The Commonwealth of Australia, c/- The Scheme Administrator, Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding, c/- The Secretary, Reserve Bank of Australia, 65 Macquarie Street, Sydney NSW 2000, Australia.

A copy of the most recent audited financial statements of the Guarantor is available at www.finance.gov.au/Publications/commonwealth-consolidated-financial-statements/.

The credit ratings assigned to the Guarantor's long-term obligations payable in Australian dollars (the currency of its jurisdiction) are AAA by Standard & Poor's, Aaa by Moody's Investors Service Inc. and AAA by Fitch Ratings. There have been no changes in these credit ratings in the two years prior to the date of this General Disclosure Statement.

New Zealand deposit guarantee scheme

On 12 October 2008 the New Zealand Government announced an opt-in deposit guarantee scheme under which it will guarantee deposits with participating New Zealand registered banks and non-bank deposit taking entities, with effect from 12 October 2008. The guarantee will be for a period of two years from the announcement date.

Westpac New Zealand has opted into the scheme, and entered into a Crown Deed of Guarantee with the New Zealand Government on 11 November 2008 , which was amended by a Supplemental Deed dated 24 November 2008, (together '**Guarantee**'). Further details of the Guarantee are available in Westpac New Zealand's General Disclosure Statement for the year ended 30 September 2008 and from the Treasury internet site www.treasury.govt.nz.

The NZ Branch has not opted into the scheme.

Note 50 Subsequent events (continued)

The Guarantee extends to all debt securities issued by Westpac New Zealand in any currency (which includes deposits and other amounts lent to Westpac New Zealand), other than debt securities issued to related parties or to financial institutions. It does not extend to subordinated debt obligations. Financial institutions include persons who carry on the business of borrowing and lending money, or providing financial services (and extends to registered banks). There is a limit on the amount of the debt securities covered by the Guarantee of NZ$1 million per creditor.

Under the Guarantee Westpac New Zealand is required to pay a fee of 10 basis points (or 0.1%) on the amounts owing to creditors covered by the Guarantee to the extent that the amount owing exceeded $5 billion as at 12 October 2008. Westpac New Zealand has estimated its liability under this provision at $14.9 million. An additional 10 basis point fee is payable in respect of the position as at 12 October 2009.

New Zealand wholesale funding guarantee facility

On 1 November 2008 the New Zealand Government announced details of a wholesale funding guarantee facility to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations ('**Facility**'). The Facility will operate on an opt-in basis, and apply on an issue by issue basis. A guarantee fee will be charged, differentiated by the credit rating of the issuer and the term of the security being guaranteed. The maximum term of securities guaranteed is five years. Further information about the Facility may be obtained from the Treasury internet site www.treasury.govt.nz.

As at the date this General Disclosure Statement is signed, neither Westpac New Zealand nor the NZ Branch had made use of the Facility.

Note 51 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, 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. 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's General Disclosure Statement for the year ended 30 September 2008.

Note 51 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
Assets				
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
Total assets	49,522	(37,659)	56	11,919
Less:				
Liabilities				
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
Total liabilities excluding subordinated debentures and due to related entities	33,653	(27,958)	27	5,722
Subordinated debentures	1,472	-	-	1,472
Total liabilities excluding due to related entities	35,125	(27,958)	27	7,194
Due to related entities	11,707	(9,701)	-	2,006
Total liabilities excluding head office account	46,832	(37,659)	27	9,200
Net assets excluding head office account	2,690	-	29	2,719
Represented by:				
Head office account				
Branch capital	711	-	-	711
Retained profits	670	-	54	724
Total head office account	1,381	-	54	1,435
NZ Banking Group equity				
Cash flow hedge reserve	25	-	(25)	-
Convertible debentures	1,284	-	-	1,284
Total NZ Banking Group equity	1,309	-	(25)	1,284
Minority interests				
Other minority interests	-	-	-	-
Total minority interests	-	-	-	-
Total head office account and equity	2,690	-	29	2,719

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Auditors' Report

To the Directors of Westpac Banking Corporation

We have examined pages 10 to 86 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Clauses 19 and 20 of Schedule 3 and Schedules 4 to 8 the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the "Order"). The financial statements provide information about the past financial performance and cash flows of Westpac Banking Corporation – New Zealand Branch (the "NZ Branch") and the aggregated results of Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") and their financial position as at 30 September 2008. This information is stated in accordance with the accounting policies set out on pages 16 to 26 and the requirements of the Order.

The supplementary information contains information prepared in accordance with Schedules 4 to 8 of the Order.

Directors' Responsibilities

The NZ Banking Group financial statements are signed by the Responsible Person on behalf of the Directors of Westpac Banking Corporation. The Directors are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2008 and their financial performance and cash flows for the year ended on that date and which are not false or misleading. The General Disclosure Statement also includes supplementary information which complies with Schedules 4 to 8 of the Order.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements and the supplementary information disclosed in accordance with Clause 21, Clauses 19 and 20 of Schedule 3, and Schedules 4 to 8 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in Note 44), we are responsible for auditing these financial statements in order to state whether, on the basis of the procedures described below, these financial statements give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (disclosed in Note 44), we are responsible for auditing the disclosures in order to state whether, on the basis of the procedures described below, the disclosures are fairly stated in accordance with Schedules 4 to 8 of the Order, and for reporting our findings to you.

PRICEWATERHOUSECOOPERS

Auditors' Report

Westpac Banking Corporation

Basis of Opinion

An audit of the financial statements includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the NZ Branch and the NZ Banking Group, consistently applied and adequately disclosed.

We conducted our audit of the financial statements in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We carry out other assignments on behalf of the NZ Branch and the NZ Banking Group in the area of taxation and other assurance 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.

Unqualified Audit Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Bank as far as appears from our examination of those records;

(b) the financial statements on pages 10 to 86 (excluding the supplementary information disclosed in Note 44):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2008 and their financial performance and cash flows for the year ended on that date.

(c) the supplementary information disclosed in Note 44 prescribed by Clauses 19 and 20 of Schedule 3 and Schedules 4 to 8 of the Order fairly states the matters to which it relates in accordance with those Schedules.

Our work was completed on 4 December 2008 and our unqualified opinions are expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants | Auckland

FreePost Authority Number 4030

Supplemental Disclosure Statement
Company Secretariat
Level 12
188 Quay Street
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AUCKLAND

Supplemental Disclosure Statement

If you wish to obtain a copy of the document(s) 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: ______________________________

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

- [ ] **ANNUAL REPORT 2008***
- [ ] **SUPPLEMENTAL DISCLOSURE STATEMENT****

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

** Containing the most recent publicly available financial statements of the Overseas Bank and the Overseas Banking Group, and the Deed of Guarantee dated 20 November 2008 in respect of the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding.