Westpac

Westpac New Zealand Limited's general short form disclosure statement

for the three months ended 31 December 2007

Index

General information and definitions

The information contained in this General Short Form Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2007 ('**Order**').

In this General Short Form Disclosure Statement reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its subsidiaries (otherwise referred to as the '**Banking Group**'). As at 31 December 2007, the Bank has the following subsidiaries:
  - Westpac NZ Operations Limited - Holding company
  - Westpac Securities NZ Limited - Funding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - The Warehouse Financial Services Limited - Financial services company

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

General matters

Registered Bank

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (company number 1763882) on 14 February 2006. The head office of the Bank is situated at, and the address for service of the Bank is, Level 15, 188 Quay Street, Auckland, New Zealand.

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

- Westpac New Zealand Group Limited has a direct qualifying interest in 100% of the voting securities in the Bank and the ability to directly appoint up to 100% of the Board of Directors of the Bank ('**Board**'); and
- as indirect holding companies of the Bank, each of the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited has an indirect qualifying interest in 100% of the voting securities of the Bank and the ability to indirectly appoint up to 100% of the Board.

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

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

The Bank commenced trading on 1 November 2006 (see the section on Westpac in New Zealand on page 2 for more information). Consequently, while the comparatives in the General Short Form Disclosure Statement have been prepared for the three months ended 31 December 2006, financial disclosure in respect of the Bank over this period includes only two months of trading.

Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an Authorised Deposit-taking Institution under the Banking Act 1959 (Australia), and as such is subject to prudential supervision by the Australian Prudential Regulatory Authority ('**APRA**'). APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, the Ultimate Parent Bank must comply with the following:

- the level of exposure to the Bank must not exceed:
  - 50% on an individual exposure basis; and
  - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank);

  of the Ultimate Parent Bank's capital base;
- the Ultimate Parent Bank should not undertake any third-party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank should not hold unlimited exposures (such as a general guarantee covering any of the Bank's obligations) in the Bank;
- the Ultimate Parent Bank should not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations; and
- when determining limits on acceptable levels of exposure to the Bank, the board of the Ultimate Parent Bank should have regard to:
  - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures; and
  - the impact on the Ultimate Parent Bank's capital and liquidity position and its ability to continue operating in the event of a failure by the Bank.

The Ultimate Parent Bank complies with the requirements set by APRA on the extent of financial support the Ultimate Parent Bank may provide to the Bank.

In addition, pursuant to the Banking Act 1959 (Australia), in the event that the Ultimate Parent Bank is unable to meet its obligations or suspends payment, the Australian assets of the Ultimate Parent Bank are to be available to meet the deposit liabilities of the Ultimate Parent Bank in Australia in priority to all its other liabilities.

Directorate

The Directors of the Bank (the '**Board**') at the time this General Short Form Disclosure Statement was signed were:

David Raymond Morgan, BEc, MSc, PhD
Bradley John Cooper, DipBM, MBA, FAIM
Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)
Harold Maffey Price
Peter David Wilson, CA
Ralph Graham Waters, C.P.Eng, F.I.E (AUST) M.Bus

There have been no changes to the composition of the Board since publication of the Bank's General Disclosure Statement for the year ended 30 September 2007. David Raymond Morgan will resign as a Director of the Bank on 31 January 2008. Gail Patricia Kelly is to be appointed as a Director of the Bank with effect from 1 February 2008.

Westpac in New Zealand

Until 1 November 2006, the Ultimate Parent Bank operated as a branch in New Zealand. On and from 1 November 2006 the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank ('**NZ Branch**') (carrying on wholesale banking and financial markets business) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). The Bank is a member of the Ultimate Parent Bank Group of companies.

Further information on the NZ Branch is available in Westpac Banking Corporation's General Short Form Disclosure Statement for the three months ended 31 December 2007.

Credit ratings

The Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. On 4 May 2007, Moody's Investors Service raised its long term credit rating from 'Aa3' to 'Aa2'. On 22 February 2007, Standard & Poor's raised its long term credit rating from 'AA-' to 'AA'.

These credit ratings are given without any qualifications.

Rating Agency	Current Credit Rating
Moody's Investors Service	**Aa2**
Standard & Poor's	**AA**

Descriptions of credit rating scales

	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
Very strong ability to repay principal and interest.	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	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.	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	Caa	CCC
Highest risk of default.	Ca to C	CC to C
Obligations currently in default.	-	D

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

Risk management policies

There have been no changes to the risk management policies and no new categories of risk to which the Banking Group has become exposed since the publication of the Bank's General Disclosure Statement for the year ended 30 September 2007.

Market risk

The Banking Group's aggregate market risk exposure is derived in accordance with the ninth schedule (sub-clauses (1)(a), (8)(a) and (11)(a)) of the Order.

The peak end-of-day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the relevant three-month period, and then dividing that amount by the Banking Group's equity as at the end of the period.

	The Banking Group			
	As at 31 December 2007 Unaudited $m	**Peak End-of-Day for the Three Months Ended 31 December 2007 Unaudited $m**	As at 31 December 2006 Unaudited $m	Peak End-of-Day for the Three Months Ended 31 December 2006 Unaudited $m
Aggregate interest rate exposure	**54**	**80**	247	247
As a percentage of the Banking Group's equity	**2.10%**	**3.10%**	9.80%	9.80%

The Banking Group has no material exposure to equity risk or foreign currency risk.

Guarantee arrangements

The material obligations of the Bank are not guaranteed.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 31 December 2007, are as follows:

1. That the Banking Group complies with the following requirements:
   - Capital of the Banking Group is not less than 8 percent of risk weighted exposures.
   - Tier One Capital of the Banking Group is not less than 4 percent of risk weighted exposures.
   - Capital of the Banking Group is not less than NZ$15 million.

   For the purposes of this condition of registration, capital, Tier One Capital and risk weighted exposures shall be calculated in accordance with the Reserve Bank of New Zealand document entitled 'Capital Adequacy Framework' (BS2) dated March 2007.
2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice as defined in the Financial Reporting Act 1993.
3. That the Banking Group's insurance business is not greater than 1 percent of its total consolidated assets. For the purposes of this condition:

   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 a 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:

      a. the total consolidated assets of the group headed by that entity;

      b. 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.

Conditions of registration (continued)

4. That the aggregate credit exposures (of a non-capital nature and net of specific provisions) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

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

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of specific provisions) to non-Bank connected persons shall not exceed 15 percent of the Banking Group's Tier One Capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposures Policy' (BS8) dated March 2007.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the Bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank, or any other entity capable of controlling or significantly influencing the Bank.
7. That the chairperson of the Bank's board is not an employee of the Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made unless:

   (a) the Reserve Bank of New Zealand has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank of New Zealand has advised that it has no objection to that appointment.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

   (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

   (b) that the Bank's financial risk positions on a day can be identified on that day;

   (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

   (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.

   Until 30 June 2008, functions provided to the Bank by Electronic Transaction Services Limited and Interchange and Settlement Limited are not covered by this condition.

12. (a) That the business and affairs of the Bank are managed by, or under the direction or supervision of, the board of the Bank.

   (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the Bank.

   (c) That by 31 December 2007 all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.

For the purposes of these conditions of registration, the term "Banking Group" means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993.

With respect to the seventh condition of registration stated above, please note that the chairperson of the Bank's Board is an employee of Westpac Banking Corporation.

Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this General Short Form Disclosure Statement is signed:

(a) the General Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2007; and

(b) the General Short Form Disclosure Statement is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the three months ended 31 December 2007:

(a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989;

(b) the credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and

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

This Directors' Statement has been signed by all the Directors:

David Raymond Morgan

Bradley John Cooper

Elizabeth Blomfield Bryan

Harold Maffey Price

Peter David Wilson

Ralph Graham Waters

Dated this the 30th day of January 2008

Consolidated short form financial statements

Contents

Consolidated income statement for the three months ended 31 December 2007

		The Banking Group		
	Note	**Three Months Ended 31 December 2007 Unaudited $m**	Three Months Ended 31 December 2006 Unaudited $m	Year Ended 30 September 2007 Audited $m
Interest income		**1,039**	584	3,337
Interest expense		**(754)**	(398)	(2,297)
Net interest income		**285**	186	1,040
Non-interest income:				
Fees and commissions		**89**	59	308
Trading income/(loss)		**-**	-	-
(Loss)/gain on ineffective hedges		**(2)**	-	(4)
Loss on disposal of assets		**-**	-	-
Other non-interest income		**1**	6	26
Total non-interest income		**88**	65	330
Net operating income		**373**	251	1,370
Operating expenses		**(171)**	(112)	(605)
Impairment charges on loans	2	**(22)**	(18)	(85)
Profit before income tax expense		**180**	121	680
Income tax expense		**(60)**	(41)	(231)
Profit after income tax expense		**120**	80	449
Profit attributable to minority interests		**(1)**	(1)	(3)
Profit after income tax expense attributable to equity holders of the Banking Group		**119**	79	446

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 16, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The income statement includes the trading result of the Bank as a registered bank, for 2 months (for the three months ended 31 December 2006) and 11 months (for the year ended 30 September 2007).

Consolidated statement of changes in equity for the three months ended 31 December 2007

	The Banking Group Equity				
	Share Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Minority Interests $m	Total $m
Opening balance as at 1 October 2006 (audited)	1,700	7	-	-	1,707
Three months ended 31 December 2006					
Change in cash flow hedges	-	-	9	-	9
Tax effect of change in cash flow hedges	-	-	(3)	-	(3)
Profit after income tax expense	-	79	-	1	80
Total recognised income and expenses for the period 1 October 2006 to 31 December 2006	-	79	6	1	86
Share capital issued	715	-	-	-	715
Dividends paid or provided for on ordinary share capital	-	-	-	-	-
Other minority interests	-	-	-	6	6
As at 31 December 2006 (unaudited)	2,415	86	6	7	2,514
Year ended 30 September 2007					
Change in cash flow hedges	-	-	31	-	31
Tax effect of change in cash flow hedges	-	-	(10)	-	(10)
Profit after income tax expense	-	446	-	3	449
Total recognised income and expenses for the year ended 30 September 2007	-	446	21	3	470
Share capital issued	715	-	-	-	715
Dividends paid or provided for on ordinary share capital	-	(217)	-	-	(217)
Other minority interests	-	-	-	6	6
As at 30 September 2007 (audited)	2,415	236	21	9	2,681
Three months ended 31 December 2007					
Change in cash flow hedges	**-**	**-**	**6**	**-**	**6**
Tax effect of change in cash flow hedges	**-**	**-**	**(2)**	**-**	**(2)**
Profit after income tax expense	**-**	**119**	**-**	**1**	**120**
Total recognised income and expenses for the three months ended 31 December 2007	**-**	**119**	**4**	**1**	**124**
Share capital issued	**-**	**-**	**-**	**-**	**-**
Dividends paid or provided for on ordinary share capital	**-**	**(218)**	**-**	**-**	**(218)**
Other minority interests	**-**	**-**	**-**	**(5)**	**(5)**
As at 31 December 2007 (unaudited)	**2,415**	**137**	**25**	**5**	**2,582**

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 December 2007

	Note	The Banking Group 31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Assets				
Cash		**190**	189	102
Due from other financial institutions		**-**	1	-
Derivative financial instruments		**-**	-	-
Other trading securities	3	**1,886**	905	2,382
Other financial assets designated at fair value	3	**-**	-	-
Loans	4,7	**43,739**	38,541	42,559
Due from related entities		**-**	299	-
Goodwill and other intangible assets		**599**	606	603
Property, plant and equipment		**85**	96	88
Income tax receivable		**-**	-	-
Deferred tax assets		**87**	109	87
Other assets		**182**	155	174
Total assets		**46,768**	40,901	45,995
Less:				
Liabilities				
Due to other financial institutions		**-**	8	-
Deposits at fair value	6	**4,146**	3,803	3,535
Deposits at amortised cost	6	**26,704**	23,960	25,876
Derivative financial instruments		**-**	-	-
Debt issues		**11,085**	3,644	11,699
Current tax liabilities		**93**	71	31
Deferred tax liabilities		**-**	-	-
Provisions		**46**	41	54
Other liabilities		**574**	429	594
Total liabilities excluding subordinated debentures and due to related entities		**42,648**	31,956	41,789
Perpetual subordinated notes	8	**970**	970	970
Total liabilities excluding due to related entities		**43,618**	32,926	42,759
Due to related entities		**568**	5,461	555
Total liabilities		**44,186**	38,387	43,314
Net assets		**2,582**	2,514	2,681
Represented by:				
Equity				
Ordinary share capital		**2,415**	2,415	2,415
Retained profits		**137**	86	236
Cash flow hedge reserve		**25**	6	21
Total equity attributable to equity holders of Westpac New Zealand Limited		**2,577**	2,507	2,672
Other minority interests		**5**	7	9
Total equity		**2,582**	2,514	2,681

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 16, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006.

Consolidated statement of cash flows for the three months ended 31 December 2007

		The Banking Group		
	Note	**Three Months Ended 31 December 2007 Unaudited $m**	Three Months Ended 31 December 2006 Unaudited $m	Year Ended 30 September 2007 Audited $m
Cash flows from operating activities				
Interest income received		**1,043**	573	3,298
Interest paid		**(782)**	(402)	(2,080)
Other non-interest income received		**76**	63	333
Net disposal/(acquisition) of other trading assets		**496**	(905)	(2,382)
Net disposal of derivative financial instruments		**-**	-	-
Non-interest expenses paid		**(154)**	(103)	(543)
Income tax paid		**-**	-	(211)
Net cash flows provided by/(used in) operating activities		**679**	(774)	(1,585)
Cash flows from investing activities				
Net increase/(decrease) in due from other financial institutions - term		**-**	-	-
Net (acquisition)/disposal of other financial assets at fair value		**-**	-	-
Net (acquisition)/disposal of available-for-sale securities		**-**	-	-
Net loans advanced to customers		**(1,207)**	(1,600)	(5,687)
Net (acquisition)/disposal of life insurance assets		**-**	-	-
Net decrease in due from related entities		**6**	2,433	2,608
Net increase in other assets		**(2)**	-	(21)
Payment for purchase of subsidiary, net of cash acquired	16	**-**	(236)	(236)
Purchase of capitalised computer software		**(1)**	(13)	(32)
Purchase of property, plant and equipment		**(8)**	(7)	(17)
Proceeds from disposal of property, plant and equipment		**8**	-	-
Proceeds from disposal of computer software		**-**	5	-
Proceeds from disposal of investments in related entities		**-**	-	-
Net cash (used in)/provided by investing activities		**(1,204)**	582	(3,385)
Cash flows from financing activities				
Issue of ordinary share capital		**-**	715	715
Cash vested from parent entity	16	**-**	123	123
Net increase in due to other financial institutions - term		**-**	8	-
Net increase in deposits		**1,434**	249	1,897
Net (payment)/proceeds from debt issues/(redemptions)		**(614)**	3,644	11,699
Net increase/(decrease) in other liabilities		**3**	9	(18)
Net proceeds from perpetual subordinated notes		**-**	270	270
Net increase/(decrease) in due to related entities		**13**	(4,636)	(9,397)
Payment of dividends on ordinary shares		**(223)**	-	(217)
Net cash provided by financing activities		**613**	382	5,072

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 16, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The statement of cash flow includes the trading result of the Bank as a registered bank, for 2 months (for the three months ended 31 December 2006) and 11 months (for the year ended 30 September 2007).

Consolidated statement of cash flows (continued) for the three months ended 31 December 2007

	The Banking Group		
	Three Months Ended 31 December 2007 Unaudited $m	Three Months Ended 31 December 2006 Unaudited $m	Year Ended 30 September 2007 Audited $m
Net increase in cash and cash equivalents	**88**	190	102
Cash and cash equivalents at beginning of the period/year	**102**	-	-
Cash and cash equivalents at end of the period/year	**190**	190	102
Cash and cash equivalents comprise			
Cash	**190**	189	102
Due from other financial institutions – at call	**-**	1	-
Due to other financial institutions – at call	**-**	-	-
Cash and cash equivalents at end of the period/year	**190**	190	102
Reconciliation of profit after income tax expense to net cash flows from operating activities			
Profit after income tax expense attributable to equity holders of the Banking Group	**119**	79	446
Adjustments:			
Amortisation of intangible assets	**11**	9	35
Impairment charges on loans	**22**	18	85
Depreciation/amortisation	**7**	7	25
Loss on sale of property, plant and equipment	**-**	-	(1)
Share-based payments	**-**	-	3
Minority interests in subsidiary companies	**1**	1	3
Movement in accrued assets	**(14)**	(16)	(36)
Movement in accrued liabilities	**(23)**	(7)	223
Movement in income tax provisions	**60**	42	14
Net disposal/(acquisition) of other trading securities	**496**	(907)	(2,382)
Net cash flows from operating activities	**679**	(774)	(1,585)

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 16, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The statement of cash flow includes the trading of the Bank as a registered bank, for 2 months (for the three months ended 31 December 2006) and 11 months (for the year ended 30 September 2007).

Notes to the consolidated short form financial statements

Note 1 Statement of accounting policies

General accounting policies

Statutory base

These consolidated short form financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2007 ('**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 Banking Group comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

These consolidated short form financial statements were authorised for issue by the Board on 30th January 2008.

Basis of preparation

The consolidated short form financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for financial assets and liabilities held for trading and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand currency unless otherwise stated.

The consolidated short form financial statements have been prepared in accordance with NZ IAS 34 *Interim Financial Reporting*. The same accounting policies have been followed in preparing these consolidated short form financial statements that were disclosed in the General Disclosure Statement for the year ended 30 September 2007.

Change to corporate tax rate

In May 2007, the corporate tax rate in New Zealand was changed from 33% to 30% with effect from the 2008/09 income tax year. This revised income tax rate has not impacted the current tax liability balance for the current income tax year, but will do so in future periods. However, the impact of the change in the income tax rate has been taken into account in the measurement of deferred taxes at the end of the previous reporting period (30 September 2007). The change in the income tax rate resulted in a decrease in the deferred tax asset balance of $6,404,410. Of the adjustment arising from the change in tax rates, $6,404,410 was recognised in the income statement, while a credit of $449,578 was recognised directly in equity as it related to items previously charged to equity. As the deferred tax liability balance is offset against the deferred tax asset balance, the net deferred tax asset balance decreased by $5,954,831 on the face of the balance sheet.

Deferred tax assets and liabilities recognised in the current period will be reflected at the rate expected to be in force when the recognised items reverse.

Note 2 Impairment on loans

	The Banking Group		
	Three Months Ended 31 December 2007 Unaudited $m	Three Months Ended 31 December 2006 Unaudited $m	Year Ended 30 September 2007 Audited $m
Individually assessed provisions	**15**	2	29
Individually assessed provisions no longer required	**(4)**	(1)	(15)
Collectively assessed provision	**14**	20	81
Write-offs direct	**1**	-	3
Interest adjustments	**(4)**	(3)	(13)
Total impairment charges on loans	**22**	18	85

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

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Other trading assets			
Trading securities	**1,886**	905	2,382
Securities purchased under agreement to resell	**-**	-	-
Total other trading assets	**1,886**	905	2,382
Other financial assets at fair value	**-**	-	-
Total other trading assets and other financial assets designated at fair value	**1,886**	905	2,382
Listed trading securities			
NZ Government securities	**-**	-	24
NZ corporate securities	**-**	-	-
Other	**-**	-	-
Total listed trading securities	**-**	-	24
Unlisted trading securities			
NZ Government securities	**-**	-	-
NZ corporate securities:			
Certificates of deposit	**1,879**	905	2,342
Corporate bonds	**-**	-	-
Commercial paper	**7**	-	16
Mortgage-backed securities	**-**	-	-
Total unlisted trading securities	**1,886**	905	2,358
Total trading securities	**1,886**	905	2,382

Note 4 Loans

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Overdrafts	**1,012**	943	1,067
Credit card outstandings	**1,145**	1,081	1,062
Money market loans	**764**	686	677
Term loans:			
Housing	**29,652**	25,943	28,989
Non-housing	**11,183**	9,878	10,778
Other	**197**	171	186
Total gross loans	**43,953**	38,702	42,759
Provisions for impairment on loans	**(214)**	(161)	(200)
Total net loans	**43,739**	38,541	42,559

Note 5 Interest earning assets and interest bearing liabilities

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Interest earning and discount bearing assets	**45,839**	39,780	45,141
Interest and discount bearing liabilities	**41,239**	34,859	40,495

Note 6 Deposits

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Deposits at fair value			
Certificates of deposit	**4,146**	3,803	3,535
Total deposits at fair value	**4,146**	3,803	3,535
Deposits at amortised cost			
Non-interest bearing, repayable at call	**2,234**	2,174	2,097
Other interest bearing:			
At call	**10,305**	9,689	10,353
Term	**14,165**	12,097	13,426
Total deposits at amortised cost	**26,704**	23,960	25,876
Total deposits	**30,850**	27,763	29,411

Note 7 Impaired assets

	The Banking Group		
	Three Months Ended 31 December 2007 Unaudited $m	Three Months Ended 31 December 2006 Unaudited $m	Year Ended 30 September 2007 Audited $m
Gross individually impaired assets	**136**	63	118
Individually assessed provisions	**(36)**	(16)	(26)
Net individually impaired assets	**100**	47	92
Gross individually impaired assets			
Balance at beginning of the period/year	**118**	-	-
Impaired assets vested during the period/year	**-**	66	66
Additions	**47**	25	134
Amounts written off	**(2)**	(1)	(6)
Returned to performing or repaid	**(29)**	(27)	(76)
Balance at end of the period/year excluding restructured assets	**134**	63	118
Restructured assets			
Balance at beginning of the period/year	**-**	-	-
Transfer in vested restructured assets	**-**	-	-
Additions	**2**	-	-
Returned to performing or repaid	**-**	-	-
Balance at end of the period/year	**2**	-	-
Total gross individually impaired assets	**136**	63	118
Interest forgone for the period/year on the above impaired assets	**1**	1	3
Individually assessed provisions			
Balance at beginning of the period/year	**26**	-	-
Provision vested during the period/year	**-**	14	14
Impairment charges on loans	**15**	2	29
Individually assessed provisions no longer required	**(4)**	(1)	(15)
Impairment charges on loans written off	**(2)**	-	(4)
Interest adjustments	**1**	1	2
Balance at end of the period/year	**36**	16	26
Collectively assessed provision			
Balance at beginning of the period/year	**194**	-	-
Provision vested during the period/year	**-**	144	144
Impairment charges on loans	**4**	18	50
Balance at end of the period/year	**198**	162	194
Total impairment provisions	**234**	178	220
Provisions for impairment on loans	**214**	161	200
Provisions for impairment on off-balance sheet credit exposures	**20**	17	20
Total impairment provisions	**234**	178	220
Past due assets[1]			
Balance at beginning of the period/year	**48**	-	-
Past due assets vested during the period/year	**-**	34	34
Additions	**26**	11	101
Deletions	**(22)**	(16)	(87)
Balance at end of the period/year	**52**	29	48
Interest forgone for the period on the above past due assets	**-**	-	-
Other assets under administration[1]			
Balance at beginning of the period/year	**3**	-	-
Assets under administration vested during the period/year	**-**	3	3
Additions	**1**	-	1
Deletions	**-**	(1)	(1)
Balance at end of the period/year	**4**	2	3
Interest income accrued on impaired assets[2]	**3**	2	8

[1] Past due assets and other assets under administration are not impaired assets.
[2] Interest income accrued on impaired assets is included within interest income for the period/year.

There were no unrecognised impaired assets as at 31 December 2007 (31 December 2006: nil, 30 September 2007: nil).

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

Note 8 Perpetual subordinated notes

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

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Perpetual subordinated debentures	**970**	970	970
Total subordinated debentures	**970**	970	970

Note 9 Commitments and contingent liabilities

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

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

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

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

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Banking Group, the Bank considers these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make payment under the guarantee. The Bank guarantees commercial paper and other debt securities issued by Westpac Securities NZ Limited, the proceeds of which, in accordance with Reserve Bank of New Zealand guidelines, are immediately on lent to the Bank. Guarantees outstanding as at 31 December 2007 were NZD equivalent $10,370 million (31 December 2006: $3,269 million, 30 September 2007: $11,064 million).

Other contingent liabilities

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

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

The New Zealand Inland Revenue Department is reviewing a number of structured finance transactions undertaken by the NZ Branch and a number of subsidiaries of the Ultimate Parent Bank in New Zealand. The review includes transactions in which The Home Mortgage Company Limited and Westpac (NZ) Investments Limited, members of the Banking Group, participated. Liability for tax reassessment, if any, arising from the review will rest with the Ultimate Parent Bank. See Westpac Banking Corporation's General Short Form Disclosure Statement for the three months ended 31 December 2007 (Note 12: Commitments and contingent liabilities) for further information on the New Zealand Inland Revenue Department review.

Note 9 Commitments and contingent liabilities (continued)

The Bank leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the Bank upon vacation of all leased premises subject to these provisions as at 31 December 2007 was estimated to be $21 million (31 December 2006: $14 million, 30 September 2007: $21 million). The Bank believes it is highly unlikely it would incur a material operating loss as a result of this in the normal course of its business operations.

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Contingent liabilities			
Direct credit substitutes	**71**	52	62
Transaction related contingent items	**277**	255	282
Short term, self liquidating trade related contingent liabilities	**699**	576	687
Total contingent liabilities	**1,047**	883	1,031

Other commitments

As at 31 December 2007, the Banking Group had commitments in respect of interest swap transactions, provision of credit, underwriting facilities and other engagements entered into in the normal course of business. The Banking Group has management systems and operational controls in place to manage interest rate risk. Accordingly, it is not envisaged that any liability resulting in material loss to the Banking Group will arise from these transactions.

Note 10 Concentration of credit exposures to individual counterparties

Analysis of credit exposures to individual counterparties

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

10 - 20% of Banking Group's equity	**As at 31 December 2007 Unaudited**	**Peak End-of-Day for the Three Months Ended 31 December 2007 Unaudited**	As at 31 December 2006 Unaudited	Peak End-of-Day for the Three Months Ended 31 December 2006 Unaudited	As at 30 September 2007 Audited	Peak End-of-Day for the Three Months Ended 30 September 2007 Audited
Individual counterparties						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-

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 by the Banking Group's equity as at the end of the period. Credit exposure used in the above calculations is determined with reference to actual credit exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to those counterparties if they are recorded outside New Zealand nor exposures to connected persons or any OECD government. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of specific provisions.

Note 10 Concentration of credit exposures to individual counterparties (continued)

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

	As at 31 December 2007		As at 31 December 2006		As at 30 September 2007	
10 - 20% of Banking Group's equity	**Aggregate Credit Exposures Unaudited $m**	**Percentage of Credit Exposures Unaudited %**	Aggregate Credit Exposures Unaudited $m	Percentage of Credit Exposures Unaudited %	Aggregate Credit Exposures Audited $m	Percentage of Credit Exposures Audited %
Individual counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-

Note 11 Capital adequacy

The information contained in the tables below has been derived in accordance with the Bank's conditions of registration which relate to capital adequacy and the Reserve Bank of New Zealand document entitled 'Capital Adequacy Framework' (BS2) dated March 2007.

	The Banking Group		
	31 December 2007 Unaudited	31 December 2006 Unaudited	30 September 2007 Audited
Capital adequacy ratios			
Tier One Capital, expressed as a percentage of risk weighted exposures	**5.8%**	6.2%	6.7%
Capital expressed as a percentage of the risk weighted exposure	**9.2%**	9.9%	9.8%
Reserve Bank of New Zealand minimum ratios:			
Tier One Capital, expressed as a percentage of risk weighted exposures	**4.0%**	4.0%	4.0%
Capital expressed as a percentage of risk weighted exposures	**8.0%**	8.0%	8.0%

Note 11 Capital adequacy (continued)

	The Banking Group		
	31 December 2007 Unaudited $m	31 December 2006 Unaudited $m	30 September 2007 Audited $m
Tier One Capital			
Paid in share capital	**2,415**	2,415	2,415
Revenue and similar reserves	**43**	13	21
Current period's profit after income tax (reviewed)	**-**	-	236
Minority interests	**5**	7	9
Less deductions from Tier One Capital			
Goodwill	**(477)**	(477)	(477)
Other intangible assets	**(122)**	(129)	(126)
Cash flow hedging reserve	**(25)**	(6)	(21)
Net deferred tax assets	**-**	(78)	-
Total Tier One Capital	**1,839**	1,745	2,057
Tier Two Capital – Upper level Tier Two Capital			
Perpetual subordinated notes	**970**	970	970
Current period's unaudited retained profits	**119**	79	-
Tier Two Capital – Lower level Tier Two Capital	**-**	-	-
Total Tier Two Capital	**1,089**	1,049	970
Total Tier One Capital plus Tier Two Capital	**2,928**	2,794	3,027
Less deductions from Capital	**-**	-	-
Capital	**2,928**	2,794	3,027
Total risk weighted exposures			
On-balance sheet exposures	**29,473**	26,206	28,716
Off-balance sheet exposures	**2,284**	1,964	2,142
	31,757	28,170	30,858

Note 11 Capital adequacy (continued)

Risk weighted exposures

The risk weighted exposures are derived in accordance with the conditions of registration relating to capital adequacy and the Reserve Bank of New Zealand document entitled 'Capital Adequacy Framework' (BS2) dated March 2007.

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

Calculation of on-balance sheet exposures

	The Banking Group 31 December 2007 – Unaudited Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	190	0%	-
Long term claims on government	-	10%	-
Claims on banks	1,879	20%	376
Claims on public sector entities	113	20%	23
Residential mortgages	29,651	50%	14,826
Other assets	14,248	100%	14,248
Non-risk weighted assets	687		-
Total on-balance sheet exposures	**46,768**		**29,473**

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Securitised mortgages	629	50%	315
Total off-balance sheet securitised mortgage exposures	**629**		**315**

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	71	100%	71	79%	56
Total direct credit substitutes	**71**		**71**		**56**
Commitments					
Commitments with certain drawdown	18	100%	18	20%	4
Housing loan commitments with certain drawdown	193	100%	193	50%	97
Transaction related contingent items	277	50%	139	99%	137
Short term, self liquidating trade related contingent liabilities	699	20%	140	100%	140
Other commitments to provide financial services which have an original maturity of one year or more	5,156	50%	2,578	53%	1,366
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	4,627	0%	-	0%	-
Total commitments	**10,970**		**3,068**		**1,744**
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	-		-	0%	-
Options	-		-	0%	-
Swaps	18,903		300	20%	60
Interest rate contracts:					
Forwards	-		-	0%	-
Futures	-		-	0%	-
Options	-		-	0%	-
Swaps	29,512		510	21%	109
Total market related contracts (derivatives)	**48,415**		**810**		**169**
Total off-balance sheet and derivative exposures	**59,456**		**3,949**		**1,969**
Total risk weighted exposures					**31,757**

Note 11 Capital adequacy (continued)

Calculation of on-balance sheet exposures

The Banking Group

31 December 2006 – Unaudited

	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	189	0%	-
Long term claims on government	-	10%	-
Claims on banks	906	20%	181
Claims on public sector entities	-	20%	-
Residential mortgages	25,963	50%	12,982
Other assets	13,043	100%	13,043
Non-risk weighted assets	800		-
Total on-balance sheet exposures	40,901		26,206
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	583	50%	291
Total off-balance sheet securitised mortgage exposures	583		291

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	52	100%	52	100%	52
Total direct credit substitutes	52		52		52
Commitments					
Commitments with certain drawdown	44	100%	44	20%	9
Housing loan commitments with certain drawdown	162	100%	162	50%	81
Transaction related contingent items	255	50%	128	99%	126
Short term, self liquidating trade related contingent liabilities	576	20%	115	100%	115
Other commitments to provide financial services which have an original maturity of one year or more	4,725	50%	2,363	53%	1,252
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	4,230	0%	-	0%	-
Total commitments	9,992		2,812		1,583
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	-		-	0%	-
Options	-		-	0%	-
Swaps	3,429		29	21%	6
Interest rate contracts:					
Forwards	-		-	0%	-
Futures	-		-	0%	-
Options	-		-	0%	-
Swaps	14,277		129	25%	32
Total market related contracts (derivatives)	17,706		158		38
Total off-balance sheet and derivative exposures	27,750		3,022		1,673
Total risk weighted exposures					28,170

Note 11 Capital adequacy (continued)

Calculation of on-balance sheet exposures

	The Banking Group		
	30 September 2007 – Audited		
	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	126	0%	-
Long term claims on government	-	10%	-
Claims on banks	2,342	20%	468
Claims on public sector entities	116	20%	23
Residential mortgages	28,993	50%	14,497
Other assets	13,728	100%	13,728
Non-risk weighted assets	690		-
Total on-balance sheet exposures	45,995		28,716

Calculation of off-balance sheet securitised mortgage exposures

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	62	100%	62	100%	62
Total direct credit substitutes	62		62		62
Commitments					
Commitments with certain drawdown	35	100%	35	20%	7
Housing loan commitments with certain drawdown	186	100%	186	50%	93
Transaction related contingent items	282	50%	141	99%	140
Short term, self liquidating trade related contingent liabilities	687	20%	137	100%	137
Other commitments to provide financial services which have an original maturity of one year or more	4,779	50%	2,390	53%	1,266
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	4,529	0%	-	0%	-
Total commitments	10,498		2,889		1,643
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	-		-	0%	-
Options	-		-	0%	-
Swaps	10,959		332	20%	66
Interest rate contracts:					
Forwards	-		-	0%	-
Futures	-		-	0%	-
Options	-		-	0%	-
Swaps	21,143		302	22%	67
Total market related contracts (derivatives)	32,102		634		133
Total off-balance sheet and derivative exposures	42,662		3,585		1,838
Total risk weighted exposures					30,858

Note 11 Capital adequacy (continued)

	30 September 2007 Audited %	30 September 2006 Audited %	Minimum Capital Adequacy Ratio Specified by APRA %
Ultimate Parent Bank Group			
Tier One Capital, expressed as a percentage of risk weighted exposures	6.5	6.9	4.0
Capital expressed as a percentage of risk weighted exposures	9.5	9.5	8.0
Ultimate Parent Bank			
Tier One Capital, expressed as a percentage of risk weighted exposures	6.6	6.3	4.0
Capital expressed as a percentage of risk weighted exposures	10.1	9.3	8.0

Note 12 Credit exposures to connected persons and non-bank connected persons

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

	The Banking Group					
	As at 31 December 2007 Unaudited $m	**Peak-End-of-Day For the Three Months Ended 31 December 2007 Unaudited $m**	As at 31 December 2006 Unaudited $m	Peak-End-of-Day For the Three Months Ended 31 December 2006 Unaudited $m	As at 30 September 2007 Audited $m	Peak-End-of-Day For the Three Months Ended 30 September 2007 Audited $m
Credit exposures to connected persons	-	-	296	296	-	-
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period	**0.0%**	**0.0%**	17.0%	17.0%	0.0%	0.0%
Credit exposures to non-bank connected persons	-	-	4	4	-	-
Credit exposures to non-bank connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period	**0.0%**	**0.0%**	0.2%	0.2%	0.0%	0.0%

As at 31 December 2007, the rating contingent limit applicable to the Bank was 75% of Tier One Capital. Within this overall rating contingent limit there is a sub-limit of 15% of Tier One Capital which applies to the aggregate credit exposure to non-bank connected persons. There have not been any changes in these limits during the three months ended 31 December 2007.

The limits on aggregate credit exposure to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times over the three months ended 31 December 2007.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with a syndicate of banks. These arrangements are called risk lay-off arrangements. As at 31 December 2007, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons) (31 December 2006: nil, 30 September 2007: nil). There were no allowances for impairment losses on individual financial assets against credit exposures to connected persons as at 31 December 2007 (31 December 2006: nil, 30 September 2007: nil).

The aggregate amount of the Banking Group's specific provisions provided against credit exposures to connected persons was nil as at 31 December 2007 (31 December 2006: nil, 30 September 2007: nil).

Note 13 Segment information

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

The basis of segment reporting reflects the management of the business within the Banking Group. Management consider the Banking Group to operate in one business segment, Retail Banking. The Retail Banking segment is responsible for servicing and product development for consumer and smaller to medium sized business banking customers within New Zealand, and includes the Corporate Head Office functions and funding activities that exist within New Zealand.

Note 14 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 31 December 2007, the Banking Group has securitised assets amounting to $629 million (31 December 2006: $583 million, 30 September 2007: $608 million), all having been sold by the Banking Group to the Westpac Home Loan Trust (‘**HLT**’), and the Westpac Mortgage Investment Fund (‘**MIF**’) via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and the New Zealand Custodian Trust Company Limited with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Banking Group receives fees for various services provided to HLT and MIF on an arm’s length basis, including servicing fees and management fees. These fees are recognised over the years in which the costs are borne.

Funds management and other fiduciary activities

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

Marketing and distribution of insurance products

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

Involvement with other fiduciary activities

Over the three months ended 31 December 2007:

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

Peak aggregate funding provided to entities

The Banking Group did not provide any funding to entities conducting the securitisation activities, funds management and other fiduciary activities or insurance product marketing and distribution activities described in this note (or to any other parties on whose behalf the marketing and distribution of insurance is conducted) during the three months ended 31 December 2007 (31 December 2006: nil, 30 September 2007: nil).

Risk management

The Ultimate Parent Bank Group has in place policies and procedures to ensure that difficulties arising from the activities identified above will not impact adversely on the Banking Group. 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 will minimise the possibility that those conditions would impact adversely on the Ultimate Parent Bank Group.

Note 15 Insurance business

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

Note 16 Vested assets and liabilities

Certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. This note has been prepared to provide guidance on the impact of the vesting as at 1 November 2006 by presenting a balance sheet prepared by reconciling the opening position before vesting to the new position following vesting on 1 November 2006.

As set out in the section on Westpac in New Zealand on page 2, the Ultimate Parent Bank established the Bank to assume and carry on the New Zealand consumer and business banking operations of the NZ Branch. Wholesale banking and financial markets business remain with the NZ Branch.

The reorganisation of the Ultimate Parent Bank's business was facilitated by legislation. The Westpac New Zealand Act 2006 provided for the vesting of designated NZ Branch assets and liabilities in the Bank on 1 November 2006.

The Bank commenced business as a registered bank on 1 November 2006.

The assets and liabilities that vested in the Bank 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). In addition, on 1 November 2006, the Bank acquired Westpac (NZ) Investments Limited, The Home Mortgage Company Limited and a 51% investment in The Warehouse Financial Services Limited from Westpac Holdings - NZ - Limited, a fellow subsidiary of the Ultimate Parent Bank.

The accounting policies in Note 1, as disclosed in the Banking Group's 30 September 2007 General Disclosure Statement, have been applied in the preparation of this disclosure.

Note 16 Vested assets and liabilities (continued)

	The Banking Group As at 31 October 2006 Unaudited $m	Vesting Assets and Liabilities As at 1 November 2006 Unaudited $m	Related Entities Acquired As at 1 November 2006 Unaudited $m	Total Banking Group As at 1 November 2006 Unaudited $m
Assets				
Cash	-	123	-	123
Due from other financial institutions	-	-	2	2
Derivative financial instruments	-	3	-	3
Other trading securities	-	-	-	-
Other financial assets designated at fair value	-	-	-	-
Available-for-sale securities	-	-	-	-
Loans	-	36,719	238	36,957
Due from related entities	3,416	2	164	3,582
Goodwill and other intangible assets	-	606	-	606
Property, plant and equipment	-	23	74	97
Income tax receivable	-	-	-	-
Deferred tax assets	-	72	11	83
Other assets	-	114	5	119
Total assets	3,416	37,662	494	41,572
Less:				
Liabilities				
Due to other financial institutions	-	-	-	-
Deposits at fair value	-	4,084	-	4,084
Deposits at amortised cost	-	23,430	-	23,430
Derivative financial instruments	-	7	-	7
Other trading liabilities	-	-	-	-
Debt issues	-	-	-	-
Current tax liabilities	7	-	-	7
Deferred tax liabilities	-	-	-	-
Provisions	-	58	-	58
Other liabilities	-	382	8	390
Total liabilities excluding due to related entities	7	27,961	8	27,976
Perpetual subordinated notes	970	-	-	970
Other amounts due to related entities	9	9,701	479	10,189
Total liabilities	986	37,662	487	39,135
Net assets	2,430	-	7	2,437
Represented by:				
Equity				
Ordinary share capital	2,415	-	-	2,415
Reserves	-	-	-	-
Minority interests	-	-	7	7
Retained profits	15	-	-	15
Total equity	2,430	-	7	2,437

Note 16 Vested assets and liabilities (continued)

Consideration paid for the acquisition of subsidiary entities of the Banking Group

	The Banking Group
	$m
Net assets acquired	
Due from other financial institutions	2
Loans	238
Due from related entities	164
Property, plant and equipment	74
Deferred tax assets	11
Other assets	5
Other liabilities	(8)
Other amounts due to related entities	(241)
Minority interests	(7)
Net assets acquired	238
Intangible assets acquired	-
Total consideration	238
Less: Balances acquired	
Cash	-
Due from other financial institutions	(2)
Total cash and cash equivalents	236

Westpac New Zealand Limited