Westpac New Zealand Limited 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 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 ('**Order**').

In this General Disclosure Statement reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its subsidiaries (otherwise referred to as the '**Banking Group**'). As at 30 September 2008, 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 Disclosure Statement. All amounts referred to in this General Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

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

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

Westpac New Zealand Group Limited has a direct qualifying interest in 80% of the voting securities in the Bank. Westpac Overseas Holdings No. 2 Pty Limited has a direct qualifying interest in 20% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the securities of the Bank.

Westpac New Zealand Group Limited has the ability to directly appoint up to 100% of the Board of Directors of the Bank ('**Board**') and, as indirect holding companies of the Bank, each of the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited has the ability to indirectly appoint up to 100% of the Board.

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

All appointments to the Board must be approved by the Reserve Bank of New Zealand (please refer to the Bank's conditions of registration on page 8 of this General Disclosure Statement for details of the Reserve Bank of New Zealand's approval process).

The Bank commenced trading on 1 November 2006 (refer to the section on Westpac in New Zealand on page 3 for more information). Consequently, while the comparatives in this General Disclosure Statement have been prepared for the year ended 30 September 2007, financial disclosure in respect of the Bank over this period includes only 11 months of trading.

Limits on material financial support by the Ultimate Parent Bank

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

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

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

General matters (continued)

In addition, as at 30 September 2008, section 13A(3) of the Australian Banking Act provided that, in the event that the Ultimate Parent Bank is unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to meet the deposit liabilities of the Ultimate Parent Bank in Australia in priority to all other liabilities of the Ultimate Parent Bank.

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

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

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.

Directorate

The Directors of the Bank and their country of residence at the time this General Disclosure Statement was signed were:

Name: Peter David Wilson, CA
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No[1]

External Directorships: Chairman of Kermadec Property Fund Limited. Director of each of The Colonial Motor Company Limited, Farmlands Trading Society Limited and Westpac Banking Corporation. Member of the New Zealand Exchange Limited Discipline Body and Chairman of NZX Special Division.

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: No[1]

External Directorships: Chairman of each of Caltex Australia Limited and UniSuper Limited. Director of each of Westpac Banking Corporation, 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: Bradley John Cooper, Dip. BM, MBA, FAIM
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Group Chief Transformation Officer, Westpac Banking Corporation
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No

External Directorships: Nil.

Name: Gail Patricia Kelly, Dip. ED, BA, MBA, Doctor of Bus (Charles Sturt University)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Chief Executive Officer, Westpac Banking Corporation
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No

External Directorships: Director of each of Westpac Banking Corporation, 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.

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

General matters (continued)

Name: Harold Maffey Price
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Director of each of IAG (NZ) Limited and IAG (NZ) Holdings Limited.

Name: Ralph Graham Waters, C.P.Eng, F.I.E (AUST), M.Bus
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Director of each of Fisher & Paykel Appliances Holdings Limited, Fletcher Building Finance Limited, Fletcher Building Limited, Argie Pty Limited, Gragill Pty Limited, Fonterra Co-operative Group Limited, Tyree Holdings Pty Ltd and Tyree Australia Pty Ltd.

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

All communications may be sent to the Directors at the head office of the Bank at Level 15, 188 Quay Street, Auckland, New Zealand.

Conflicts of interest policy

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

(i) give notice to the Board of any direct or indirect interest in any contract or proposed contract with the Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract between the Bank and a person or persons specified in that notice; and

(ii) in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

Interested transactions

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

(a) on terms other than on those that would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Solicitors

Simpson Grierson
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

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 Disclosure Statement for the year ended 30 September 2008.

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. 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 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
Fitch Ratings	**AA-**
Moody's Investors Service	**Aa2**
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	Ca to C	CC to C
Obligations currently in default.	C	-	D

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. 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.

Supplemental disclosure statement

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

The Bank's most recent Supplemental Disclosure Statement contains a copy of each of the bilateral netting agreements (refer to Note 47) and a copy of the Crown Deed of Guarantee and Supplemental Deed to the Crown Deed of Guarantee between the Bank and the New Zealand Government (refer to page 5).

Historical summary of financial statements

	The Banking Group		
	Year ended 30 September 2008 Audited $m	Year ended 30 September 2007 Audited $m	Period from 14 February 2006 to 30 September 2006 Audited $m
Income statement			
Interest income	**4,327**	3,337	15
Interest expense	**(3,052)**	(2,297)	(5)
Net interest income	**1,275**	1,040	10
Non-interest income	**428**	330	-
Net operating income	**1,703**	1,370	10
Operating expenses	**(709)**	(605)	-
Impairment charges on loans	**(170)**	(85)	-
Profit before income tax expense	**824**	680	10
Income tax expense	**(262)**	(231)	(3)
Profit after income tax expense	**562**	449	7
Profit after income tax expense attributable to minority interests	**(3)**	(3)	-
Profit after income tax expense attributable to equity holders of the Banking Group	**559**	446	7
Dividends paid or provided for on ordinary share capital	**(331)**	(217)	-
Profit retained	**228**	229	7
Balance sheet			
Total assets	**52,285**	47,017	2,415
Total impaired assets	**283**	116	-
Total liabilities	**47,350**	44,336	708
Total equity	**4,935**	2,681	1,707

The first accounting period for the Bank and the Banking Group is the period from 14 February 2006 to 30 September 2006.

Guarantee arrangements

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

New Zealand deposit guarantee scheme

The Bank has a guarantee under the New Zealand deposit guarantee scheme ('**Scheme**'). The Bank and the New Zealand Government ('**Crown**') entered into a Crown Deed of Guarantee on 11 November 2008 pursuant to the Scheme, which was amended by a Supplemental Deed dated 24 November 2008, (together '**Guarantee**'). The following description of the Guarantee is for general information purposes only, and does not purport to be exhaustive or definitive. For full information on the terms of the Guarantee, reference should be made to the Guarantee, a copy of which is included in the Bank's Supplemental Disclosure Statement.

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

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

The Crown has the following credit ratings in respect of its long-term obligations payable in New Zealand dollars. There have not been any changes to the ratings in the two years immediately before the latest Crown balance date. These credit ratings are given without any qualifications:

Rating Agency	The Crown's Current Credit Rating
Moody's Investors Service	Aaa
Standard & Poor's	AAA
Fitch Ratings	AAA

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

For an explanation of the credit rating scales see the table under the sub-heading "Descriptions of credit rating scales" on page 4 of this General Disclosure Statement.

Guarantee arrangements (continued)

Obligations guaranteed

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

Subject to the terms of the Guarantee the Crown:

(i) guarantees to each Creditor from time to time, the due and punctual payment by the Bank of:

(a) all Indebtedness that becomes due and payable between 12 October 2008 and 11 October 2010 (inclusive) ('**Guarantee Period**'); and

(b) if a default event of any of the types specified in paragraphs (b) to (g) (inclusive) of the definition of "Default Event" in the Guarantee occurs during the Guarantee Period, all Indebtedness that exists on the date of that Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period) and all interest accruing thereon in accordance with the terms of that Indebtedness; and

(ii) undertakes to each Creditor from time to time that, if the Bank does not pay to any Creditor any Indebtedness or interest guaranteed when due and payable, then the Crown will pay the amount of that Indebtedness or interest to the Creditor when due and payable (except to the extent that the Indebtedness or interest is not paid solely as a result of administrative or technical error and is subsequently paid within 7 days of its due date).

In this context a **Creditor** is anyone to whom the Bank has an obligation to pay money (whether present or future) under a debt security, excluding:

(i) a "Related Party" of the Bank, as that term is defined in section 157B of the Reserve Bank Act, as if:

(a) the Bank was a "deposit taker"; and

(b) "related party" included anyone who is a subsidiary of, or who is (or whose business or affairs are substantially) controlled by, any person of whom the Bank is a subsidiary or by whom the Bank is (or its business or affairs are substantially) controlled;

(ii) a "financial institution", as that term is defined in section 2 of the Reserve Bank Act and including:

(a) a "collective investment scheme" as that term is defined in section 157B of the Reserve Bank Act (as if that term also included any "superannuation fund" or "superannuation scheme" as those terms are defined in section YA1 of the Income Tax Act 2007) or an issuer, trustee or manager of any such scheme acting in that capacity;

(b) an "insurer" as that term is defined in section 2 of the Insurance Companies (Ratings and Inspections) Act 1994 or anyone carrying on the business of providing insurance cover (of whatever nature);

(c) anyone carrying on business as a sharebroker, an investment adviser or a fund manager (to the extent that person is acting in that capacity); or

(d) anyone who is a subsidiary of, or who is (or whose business or affairs are substantially) controlled by, a financial institution within (a), (b) or (c) above; and

(iii) subject to (v) below, anyone acting (directly or indirectly) as a nominee of, or a trustee for, anyone referred to in (i) or (ii) above,

but including:

(iv) anyone designated by the Crown, in accordance with the Guarantee, to be a "Nominated Beneficiary" for the purposes of the Guarantee; and

(v) if a person ("A") would be a Creditor if directly owed Indebtedness by the Bank, any person ("B") who is bare trustee for A (to the extent that B is acting in that capacity).

A debt security generally means any interest in or right to be paid money that is, or is to be, deposited with or lent to any person (whether or not the interest or right is secured by a charge over any property). It includes deposits, term deposits, current accounts, bonds, bank bills and debentures.

Subordinated debt is not covered by the Guarantee. Subordinated debt refers to obligations of the Bank which in terms of priority of payment and otherwise on a winding up, dissolution or liquidation of the Bank would rank behind the unsecured unsubordinated obligations of the Bank.

Limits on the amount of obligations guaranteed

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

Material conditions applicable to the guarantee

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

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

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

(i) receives a notice of claim from the Creditor in respect of relevant Indebtedness; and

(ii) has satisfied itself as to the amount of the Indebtedness and as to such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Guarantee in respect of that Indebtedness.

Guarantee arrangements (continued)

Where the Bank's Indebtedness is or becomes the subject of any guarantee, indemnity or other arrangement under which it is effectively guaranteed, or the relevant Creditor is effectively indemnified in respect of any non-payment of that indebtedness by any other person, the Bank must notify the Crown of that arrangement. The Bank must also use all reasonable endeavours to ensure that Creditors claim under that other arrangement before claiming against the Crown under the Guarantee and/or that the Crown has the benefit of that other arrangement in respect of any amounts paid to Creditors under the Guarantee.

Expiry and withdrawal of the guarantee

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

Where the Bank fails to comply with:

(i) certain information requests from the Crown;

(ii) any prudential supervision direction, notice or requirement under the Reserve Bank Act or otherwise; or

(iii) the terms of any trust deed for debt securities issued by the Bank,

and the appropriate notice has been given by the Crown pursuant to the Guarantee, the Crown may withdraw the Guarantee.

Under the Guarantee, if the Crown reasonably considers that the business or affairs of the Bank or any member of the Banking Group are being, or are intended or likely to be, carried on in a manner which will or may extend the effective benefit of the Guarantee to persons who are not intended to receive that benefit or is or would be otherwise inconsistent with the intentions of the Crown in entering into the Guarantee, the Crown may withdraw the Guarantee by written notice to the Bank. Upon such a withdrawal, the Guarantee will not cover Indebtedness to a Creditor who is concerned in, and has or ought to have knowledge of, the activities described in this paragraph.

The Crown may also withdraw the Guarantee for any other reason by written notice to the Bank provided that it first offers to enter into a new guarantee, effective from the date of withdrawal of the Guarantee, with the Bank on terms the Crown reasonably considers to be not materially adverse to Creditors generally as compared to the Guarantee.

The Guarantee does not cover Indebtedness which arises following the date of a withdrawal (other than interest accruing on Indebtedness existing at the date of withdrawal).

Guarantee fees

Under the Guarantee, the Bank is required to pay a fee of 10 basis points (or 0.1%) on the amounts owing to Creditors to the extent that the amount owing exceeded $5 billion as at 12 October 2008. The Bank 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.

Wholesale funding guarantee facility

On 1 November 2008 the Crown 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.

The Bank is currently assessing the implications of the Facility.

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 Banking Group or the Bank.

The New Zealand Commerce Commission has issued proceedings against the Bank and The Warehouse Financial Services Limited (a member of the Banking Group), 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 a number of subsidiaries of the Ultimate Parent Bank in New Zealand against the New Zealand Inland Revenue Department ('**NZIRD**') in which the NZ Branch and those subsidiaries of the Ultimate Parent Bank 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 Banking Group and the Bank is set out in Note 31 to the financial statements included in this General Disclosure Statement.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 15 October 2008, are as follows:

1. That the Banking Group complies with the following requirements:

   (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than 8%;

   (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than 4%; and

   (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than $30 million.

   For the purposes of this condition of registration, the scalar referred to in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is 1.06.

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

   (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

   (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where

      (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from Tier One Capital, plus deductions from Total Capital, all calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (Basel I approach)' (BS2) dated March 2008;

      (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from Tier One Capital, plus deductions from Total Capital, less any amount included in Tier Two Capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

      (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off-balance sheet credit exposures) +12.5 x total capital charge for market risk exposure +12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

1A. That-

   (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('**ICAAP**')' (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and Total Capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

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

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

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

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:

         - 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.

Conditions of registration (continued)

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

Credit rating[1]	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 any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposures Policy' (BS8) dated March 2008.

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 registered bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.
7. That the chairperson of the Bank's Board is not an employee of the registered 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:

   (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.
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 31 December 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.

The Bank's conditions of registration were changed on 1 October 2008 with effect from 15 October 2008. The change increased the minimum level of capital that the Banking Group is required to maintain, under condition 1(c), from $15 million to $30 million.

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Directors' statement

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

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry that, over the year ended 30 September 2008:

(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, except as stated in (b) below;

(b) the Bank has not complied with condition 4 of its conditions of registration, relating to credit exposures to connected persons (refer to Note 47 Credit exposures to connected persons and non-bank connected persons for further details);

(c) credit exposures to connected persons were not contrary to the interests of the Banking Group;

(d) except as stated in (e) below, the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied; and

(e) the Bank did not have systems in place to monitor and control adequately the Banking Group's material risks relating to credit exposures to connected persons.

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

Peter David Wilson

Elizabeth Blomfield Bryan

Bradley John Cooper

Gail Patricia Kelly

Harold Maffey Price

Ralph Graham Waters

Dated this the 2nd day of December 2008

Financial statements

Contents

Income statements for the year ended 30 September 2008

	Note	The Banking Group Year ended 30 September 2008 $m	The Banking Group Year ended 30 September 2007 $m	The Bank Year ended 30 September 2008 $m	The Bank Year ended 30 September 2007 $m
Interest income	2	**4,327**	3,337	**4,301**	3,313
Interest expense	2	**(3,052)**	(2,297)	**(3,054)**	(2,293)
Net interest income		**1,275**	1,040	**1,247**	1,020
Non-interest income:					
Fees and commissions	3	**321**	308	**314**	302
Loss on disposal of property, plant and equipment	3	**-**	(1)	**-**	-
Loss on ineffective hedges	3	**(1)**	(4)	**(1)**	(4)
Share of net profit of associate	3	**48**	-	**-**	-
Other non-interest income	3	**60**	27	**59**	25
Total non-interest income		**428**	330	**372**	323
Net operating income		**1,703**	1,370	**1,619**	1,343
Operating expenses	4	**(709)**	(605)	**(704)**	(599)
Impairment charges on loans	6	**(170)**	(85)	**(167)**	(84)
Profit before income tax expense		**824**	680	**748**	660
Income tax expense	7	**(262)**	(231)	**(253)**	(225)
Profit after income tax expense		**562**	449	**495**	435
Profit after income tax expense attributable to minority interests		**(3)**	(3)	**-**	-
Profit after income tax expense attributable to equity holders of the Banking Group		**559**	446	**495**	435

The accompanying notes (numbered 1 to 54) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 54, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The income statement for the year ended 30 September 2007 includes the trading result of the Bank as a registered bank for 11 months.

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

	The Banking Group					
	Share Capital $m	**Retained Profits $m**	**Cash Flow Hedge Reserve $m**	**Available for Sale $m**	**Minority Interests $m**	**Total $m**
As at 1 October 2006	1,700	7	-	-	-	1,707
Year ended 30 September 2007						
Net gains from changes in fair value of cash flow hedges	-	-	31	-	-	31
Income tax effect	-	-	(10)	-	-	(10)
Transferred to income statement	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-
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	-	(217)	-	-	-	(217)
Other minority interests	-	-	-	-	6	6
As at 30 September 2007	2,415	236	21	-	9	2,681
Year ended 30 September 2008						
Net gains from changes in available-for-sale securities (net of tax)	**-**	**-**	**-**	**16**	**-**	**16**
Net losses from changes in fair value of cash flow hedges	**-**	**-**	**(36)**	**-**	**-**	**(36)**
Income tax effect	**-**	**-**	**12**	**-**	**-**	**12**
Transferred to income statement	**-**	**-**	**-**	**-**	**-**	**-**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**
Profit after income tax expense	**-**	**559**	**-**	**-**	**3**	**562**
Total recognised income and expenses for the year ended 30 September 2008	**-**	**559**	**(24)**	**16**	**3**	**554**
Share capital issued	**2,135**	**-**	**-**	**-**	**-**	**2,135**
Dividends paid or provided	**-**	**(331)**	**-**	**-**	**-**	**(331)**
Subvention distribution	**-**	**(150)**	**-**	**-**	**-**	**(150)**
Income tax effect	**-**	**50**	**-**	**-**	**-**	**50**
Other minority interests	**-**	**-**	**-**	**-**	**(4)**	**(4)**
As at 30 September 2008	**4,550**	**364**	**(3)**	**16**	**8**	**4,935**

The accompanying notes (numbered 1 to 54) 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

	The Bank				
	Share Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Available for Sale $m	Total $m
As at 1 October 2006	1,700	7	-	-	1,707
Year ended 30 September 2007					
Net gains from changes in fair value of cash flow hedges	-	-	31	-	31
Income tax effect	-	-	(10)	-	(10)
Transferred to income statements	-	-	-	-	-
Income tax effect	-	-	-	-	-
Profit after income tax expense	-	435	-	-	435
Total recognised income and expenses for the year ended 30 September 2007	-	435	21	-	456
Share capital issued	715	-	-	-	715
Dividends paid or provided	-	(217)	-	-	(217)
As at 30 September 2007	2,415	225	21	-	2,661
Year ended 30 September 2008					
Net gains from changes in available-for-sale securities (net of tax)	**-**	**-**	**-**	**16**	**16**
Net losses from changes in fair value of cash flow hedges	**-**	**-**	**(36)**	**-**	**(36)**
Income tax effect	**-**	**-**	**12**	**-**	**12**
Transferred to income statements	**-**	**-**	**-**	**-**	**-**
Income tax effect	**-**	**-**	**-**	**-**	**-**
Profit after income tax expense	**-**	**495**	**-**	**-**	**495**
Total recognised income and expenses for the year ended 30 September 2008	**-**	**495**	**(24)**	**16**	**487**
Share capital issued	**2,135**	**-**	**-**	**-**	**2,135**
Dividends paid or provided	**-**	**(331)**	**-**	**-**	**(331)**
Subvention distribution	**-**	**(150)**	**-**	**-**	**(150)**
Income tax effect	**-**	**50**	**-**	**-**	**50**
As at 30 September 2008	**4,550**	**289**	**(3)**	**16**	**4,852**

The accompanying notes (numbered 1 to 54) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 30 September 2008

	Note	The Banking Group 2008 $m	The Banking Group 2007 $m	The Bank 2008 $m	The Bank 2007 $m
Assets					
Cash		**110**	102	**110**	102
Due from other financial institutions	9	**-**	-	**-**	-
Other trading securities	10	**1,973**	2,382	**1,973**	2,382
Available-for-sale securities	11	**35**	-	**35**	-
Loans	12, 13, 14	**46,795**	42,559	**46,617**	42,357
Due from related entities	27	**2,364**	1,022	**2,317**	1,022
Investments in related entities	27	**-**	-	**238**	238
Investment in associate	27	**48**	-	**-**	-
Goodwill and other intangible assets	15	**579**	603	**579**	603
Property, plant and equipment	16	**76**	88	**11**	17
Deferred tax assets	17	**122**	87	**111**	76
Other assets	18	**183**	174	**176**	169
Total assets		**52,285**	47,017	**52,167**	46,966
Liabilities					
Deposits at fair value	19	**4,163**	3,535	**4,163**	3,535
Deposits at amortised cost	19	**28,064**	25,876	**28,064**	25,876
Debt issues	20	**11,102**	11,699	**1,582**	635
Current tax liabilities		**69**	31	**68**	35
Deferred tax liabilities	21	**-**	-	**-**	-
Provisions	22	**67**	54	**67**	53
Other liabilities	23	**666**	594	**558**	429
Total liabilities excluding subordinated debentures and due to related entities		**44,131**	41,789	**34,502**	30,563
Perpetual subordinated notes	25	**970**	970	**970**	970
Total liabilities excluding due to related entities		**45,101**	42,759	**35,472**	31,533
Due to related entities	27	**2,249**	1,577	**11,843**	12,772
Total liabilities		**47,350**	44,336	**47,315**	44,305
Net assets		**4,935**	2,681	**4,852**	2,661
Represented by:					
Equity					
Ordinary share capital	26	**3,250**	2,415	**3,250**	2,415
Preference share capital	26	**1,300**	-	**1,300**	-
Retained profits		**364**	236	**289**	225
Available-for-sale securities reserve		**16**	-	**16**	-
Cash flow hedge reserve		**(3)**	21	**(3)**	21
Total equity attributable to equity holders of Westpac New Zealand Limited		**4,927**	2,672	**4,852**	2,661
Other minority interests		**8**	9	**-**	-
Total equity		**4,935**	2,681	**4,852**	2,661

The accompanying notes (numbered 1 to 54) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 54, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006.

Statements of cash flows for the year ended 30 September 2008

	The Banking Group		The Bank	
	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	**4,320**	3,298	**4,295**	3,274
Interest paid	**(3,010)**	(2,080)	**(2,952)**	(2,236)
Other non-interest income received	**378**	333	**368**	328
Net disposal/(acquisition) of other trading securities	**409**	(2,382)	**409**	(2,382)
Operating expenses	**(584)**	(543)	**(600)**	(551)
Income tax paid	**(144)**	(211)	**(140)**	(202)
Net cash flows from operating activities	**1,369**	(1,585)	**1,380**	(1,769)
Cash flows from investing activities				
Net disposal of available-for-sale securities	**29**	-	**29**	-
Net loans advanced to customers	**(4,406)**	(5,687)	**(4,427)**	(5,722)
Net (increase)/decrease in due from related entities	**(1,475)**	1,586	**(1,331)**	1,419
Net increase in other assets	**-**	(21)	**-**	(20)
Payment for purchase of subsidiary, net of cash acquired	**-**	(236)	**-**	(238)
Purchase of property, plant and equipment	**(20)**	(17)	**(3)**	(2)
Purchase of capitalised computer software	**(38)**	(32)	**(38)**	(32)
Net cash used in investing activities	**(5,910)**	(4,407)	**(5,770)**	(4,595)
Cash flows from financing activities				
Issue of ordinary share capital	**835**	715	**835**	715
Issue of preference share capital	**1,300**	-	**1,300**	-
Cash vested from parent entity	**-**	123	**-**	123
Net increase in deposits	**2,816**	1,897	**2,816**	1,897
Net (redemption)/proceeds from debt issues	**(597)**	11,699	**947**	635
Net increase/(decrease) in due to related entities	**667**	(8,375)	**(1,031)**	3,060
Net decrease in other liabilities	**(37)**	(18)	**(38)**	(17)
Net proceeds from perpetual subordinated notes	**-**	270	**-**	270
Payment of dividends on ordinary shares	**(335)**	(217)	**(331)**	(217)
Payment of subvention distribution (net of tax)	**(100)**	-	**(100)**	-
Net cash provided by financing activities	**4,549**	6,094	**4,398**	6,466

The accompanying notes (numbered 1 to 54) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 54, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The statement of cash flows for the year ended 30 September 2007 includes the cash flows of the Bank as a registered bank for 11 months.

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

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Net increase in cash and cash equivalents	**8**	102	**8**	102
Cash and cash equivalents at beginning of the year	**102**	-	**102**	-
Cash and cash equivalents at end of the year	**110**	102	**110**	102
Cash and cash equivalents comprise				
Cash	**110**	102	**110**	102
Cash and cash equivalents at end of the year	**110**	102	**110**	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	**559**	446	**495**	435
Adjustments:				
Software amortisation costs	**49**	35	**49**	35
Impairment charges on intangible assets	**13**	-	**13**	-
Impairment charges on property, plant and equipment	**8**	-	**2**	-
Impairment charges on loans	**170**	85	**167**	84
Depreciation/amortisation	**24**	25	**7**	8
Loss on sale of property, plant and equipment	**-**	(1)	**-**	-
Share of net profit of associate	**(48)**	-	**-**	-
Share-based payments	**5**	3	**5**	3
Minority interests in subsidiary companies	**3**	3	**-**	-
Movement in accrued assets	**(9)**	(36)	**(7)**	(35)
Movement in accrued liabilities	**70**	223	**129**	65
Movement in income tax provisions	**116**	14	**111**	18
Net disposal/(acquisition) of other trading securities	**409**	(2,382)	**409**	(2,382)
Net cash flows from operating activities	**1,369**	(1,585)	**1,380**	(1,769)

The accompanying notes (numbered 1 to 54) form part of, and should be read in conjunction with, these financial statements.

As set out in Note 54, certain New Zealand assets and liabilities of the Ultimate Parent Bank vested in the Bank on 1 November 2006. The statement of cash flows for the year ended 30 September 2007 includes the cash flows of the Bank as a registered bank for 11 months.

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 of the Banking Group, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board on 2 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 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 dollars unless otherwise stated.

The prior year comparatives for amounts due from and due to related entities have been restated as outlined in the explanation in Note 47.

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Bank and the results of all subsidiaries. The effects of all transactions between entities in the Banking Group are eliminated. Control exists when the parent entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and they are de-consolidated from the date that control ceases.

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

The interest of minority shareholders is stated at minority's proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the Bank.

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 Banking Group have been included in the income statement except where deferred in equity as qualifying cash flow hedges.

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments measured at amortised cost is recognised in the income statement 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 loans' original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an 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.

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 at 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 in the income statement as non-interest income.

Note 1 Statement of accounting policies (continued)

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.

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 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 Ultimate Parent 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 payable to the Ultimate Parent Bank recognised. The fair value is measured at grant date and is recognised over the expected vesting period during which the employees would become entitled to exercise the option or performance share right.

The fair value of options and performance share rights is estimated at grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and performance hurdle features of the grants. The fair value of the options and performance share rights excludes the impact of any non-market vesting conditions such as participants' continued employment by the 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 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 periods.

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

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

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

Goods and services tax

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

Acquisition of assets

Except as noted below, 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 fair value 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 Banking Group's share of the identifiable net assets acquired is recorded as goodwill.

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

The assets and liabilities acquired from the Ultimate Parent Bank vested on 1 November 2006 and were recognised at the carrying value as recorded by Westpac Banking Corporation's New Zealand Branch at the date of vesting.

Note 1 Statement of accounting policies (continued)

Assets

Financial assets

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

- *Financial assets at fair value through profit or loss*
  This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for selling it in the near term, if it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated 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.
- *Loans*
  Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.
- *Available-for-sale securities*
  Available-for-sale financial securities are those non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, or loans.

Recognition of financial assets

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

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.

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

Cash

Cash includes cash at branches. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

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

Derivative financial instruments

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

Other trading securities

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

Other financial assets designated at fair value

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

Available-for-sale securities

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

Loans

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

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

Note 1 Statement of accounting policies (continued)

Impairment of financial assets

Impaired financial assets include:

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Banking Group would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

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

(b) national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and 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 Banking Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Note 1 Statement of accounting policies (continued)

Investments in related entities including associates

Investments in related entities are initially recorded by the Banking Group in the balance sheet at cost. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, 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 Banking Group has significant influence but not control. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

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

Goodwill and other intangible assets

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

All goodwill is considered to have an indefinite useful life.

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

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

Goodwill was tested for impairment as at 30 September 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 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 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 cash-generating unit exceeds its recoverable amount. With the exception of goodwill for which impairment losses are generally not reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment losses and reversals of impairment losses are recognised in the income statement.

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

Note 1 Statement of accounting policies (continued)

Liabilities

Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost except for derivatives and liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised in the balance sheet when an obligation arises and derecognised when it is discharged.

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

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

Other trading liabilities and other financial liabilities at fair value

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

Debt issues

These are bonds, notes and commercial paper that have been issued by the 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.

Perpetual subordinated notes

Perpetual subordinated notes are measured at amortised cost. The notes qualify as Tier Two Capital as defined by the Reserve Bank of New Zealand for capital adequacy purposes.

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 as at the balance 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 as at the reporting date less the fair value as 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 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 scheme.

Note 1 Statement of accounting policies (continued)

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 liabilities unless the timing or amount is uncertain, in which case they are recognised as provisions.

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

Provisions

Provision for restructuring

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

Equity and reserves

Ordinary shares

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

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as other income when the asset is either derecognised or impaired.

Cash flow hedge reserve

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

Hedging

The Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss 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 Banking Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the Banking Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Banking Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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 Banking Group, through its loan securitisation programme, may package and sell loans (principally housing mortgage loans) as securities to investors. In such transactions the Banking Group provides an equitable interest in the loans to investors who provide funding to finance them. Securitised loans that do not qualify for derecognition and associated funding are included in loans and debt issues respectively.

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

Leases

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

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

Offsetting

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

Segment reporting

A segment is a distinguishable component of the 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 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 settlement process.

Netting of cash flows

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

1.3 Future accounting developments

The following new standards and interpretations have been issued, but are not yet effective and have not been early adopted by the 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 Banking Group from 1 October 2009. NZ IFRS 8 will impact the financial and descriptive information about reportable segments, but will not impact the 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. This guidance is not expected to have a material impact on the Banking Group.

Note 1 Statement of accounting policies (continued)

- 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, approved in November 2007, 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 Banking Group from 1 October 2009.

1.4 Critical accounting assumptions and estimates

Critical accounting estimates

The application of the 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 Bank and the Banking Group.

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

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 are classified as either held-for-trading or designated at fair value through profit or loss. All derivatives are measured and recognised at fair value.

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

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

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

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

The fair value of financial instruments is provided in Note 30.

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

Provisions for impairment on loans

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

Note 1 Statement of accounting policies (continued)

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

(a) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Banking Group's portfolio of commercial loans to medium and large businesses. Impairment charges are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgements can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred, but have not been separately identified as at 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 Bank and 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 $477 million (30 September 2007: $477 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, willing parties. The assumptions applied to determine impairment are outlined in Note 15.

Goodwill impairment testing for the financial year 2008 indicated that none of the Banking Group's goodwill was impaired.

Superannuation obligations

The Banking Group operates a defined benefit plan as described in Note 33. 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 Bank and Banking Group's NZ IAS 19 superannuation deficit as at 30 September 2008 was $43 million (30 September 2007: $11 million). This comprises net recognised liabilities of $23 million (30 September 2007: $24 million) and unrecognised actuarial losses of $20 million (30 September 2007: 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

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Interest income				
Loans	**4,169**	3,210	**4,143**	3,186
Impaired assets	**18**	8	**18**	8
Other trading securities	**140**	119	**140**	119
Total interest income	**4,327**	3,337	**4,301**	3,313
Interest expense				
Current and term deposits	**2,207**	1,604	**2,206**	1,604
Debt issues	**560**	396	**90**	28
Related entities	**285**	294	**758**	658
Other	**-**	2	**-**	2
Total interest expense	**3,052**	2,296	**3,054**	2,292
Other trading liabilities at fair value	**-**	1	**-**	1
Total interest expense	**3,052**	2,297	**3,054**	2,293
Net interest income	**1,275**	1,040	**1,247**	1,020

Note 3 Non-interest income

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Fees and commissions				
Lending fees (loan and risk)	**90**	78	**89**	78
Transaction fees and commissions	**226**	222	**221**	216
Management fees received from related entities	**4**	5	**4**	5
Other non-risk fee income	**1**	3	**-**	3
Total fees and commissions	**321**	308	**314**	302
Loss on ineffective hedges	**(1)**	(4)	**(1)**	(4)
Share of net profit of associate	**48**	-	**-**	-
Loss on disposal of property, plant and equipment	**-**	(1)	**-**	-
Other non-interest income				
Dividend income	**1**	2	**-**	-
Life insurance commissions	**35**	25	**35**	25
Derivatives held for risk management purposes	**24**	-	**24**	
Total other non-interest income	**60**	27	**59**	25
Total non-interest income	**428**	330	**372**	323

Note 4 Operating expenses

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Salaries and other staff expenses				
Salaries and wages	**293**	258	**293**	258
Employee entitlements	**8**	6	**8**	6
Superannuation costs:				
Defined contribution scheme	**19**	18	**19**	18
Defined benefit scheme (refer to Note 34)	**-**	(4)	**-**	(4)
Share-based payments	**5**	3	**5**	3
Restructuring costs	**6**	5	**6**	5
Other	**10**	8	**10**	8
Total salaries and other staff expenses	**341**	294	**341**	294
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities	**-**	-	**85**	62
Other	**51**	43	**6**	8
Depreciation:				
Leasehold improvements	**10**	10	**-**	-
Furniture and equipment	**14**	15	**7**	8
Equipment repairs and maintenance	**5**	6	**2**	3
Electricity, water and rates	**2**	3	**-**	-
Other	**7**	6	**-**	-
Total equipment and occupancy expenses	**89**	83	**100**	81
Other expenses				
Impairment charges on other intangible assets	**13**	-	**13**	-
Impairment charges on property, plant and equipment	**8**	-	**2**	-
Software amortisation costs	**49**	35	**49**	35
Non-lending losses	**3**	4	**3**	4
Consultancy fees and other professional services	**45**	34	**42**	33
Auditors' remuneration (refer to Note 5)	**1**	1	**1**	1
Stationery	**12**	13	**12**	13
Postage and freight	**16**	15	**16**	14
Telecommunication costs	**-**	19	**-**	19
Advertising	**27**	23	**27**	23
Training	**3**	3	**3**	3
Travel	**6**	6	**6**	6
Outsourcing	**78**	50	**78**	50
Related entities	**9**	19	**-**	15
Other	**9**	6	**11**	8
Total other expenses	**279**	228	**263**	224
Total operating expenses	**709**	605	**704**	599

The Banking Group made donations of $134,000 during the year ended 30 September 2008 (30 September 2007: $122,000).

Note 5 Auditors' remuneration

	The Banking Group		The Bank	
	Year ended 30 September 2008 $'000	Year ended 30 September 2007 $'000	**Year ended 30 September 2008 $'000**	Year ended 30 September 2007 $'000
Auditor of the parent entity				
Audit services	**1,098**	438	**991**	409
Other services:				
Further assurance services	**226**	45	**226**	-
Tax services	**50**	37	**50**	37
Total remuneration for audit and non-audit services	**1,374**	520	**1,267**	446

It is the 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 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

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Collectively assessed provision	**63**	47	**62**	46
Collective write-off	**55**	36	**53**	36
Individually assessed provisions	**64**	15	**64**	15
Individually assessed write-off	**9**	2	**9**	2
Interest adjustments	**(21)**	(15)	**(21)**	(15)
Total impairment charges on loans	**170**	85	**167**	84

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

	The Banking Group				The Bank			
	Year ended 30 September 2008				**Year ended 30 September 2008**			
	Residential Mortgages $m	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**	**Residential Mortgages $m**	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**
Collectively assessed provision	**10**	**12**	**41**	**63**	**10**	**11**	**41**	**62**
Collective write-off	**-**	**55**	**-**	**55**	**-**	**53**	**-**	**53**
Individually assessed provisions	**23**	**-**	**41**	**64**	**23**	**-**	**41**	**64**
Individually assessed write-off	**2**	**-**	**7**	**9**	**2**	**-**	**7**	**9**
Interest adjustments	**(2)**	**(8)**	**(11)**	**(21)**	**(2)**	**(8)**	**(11)**	**(21)**
Total impairment charges on loans	**33**	**59**	**78**	**170**	**33**	**56**	**78**	**167**

	The Banking Group				The Bank			
	Year ended 30 September 2007				Year ended 30 September 2007			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Collectively assessed provision	7	9	31	47	7	8	31	46
Collective write-off	-	36	-	36	-	36	-	36
Individually assessed provisions	12	-	3	15	12	-	3	15
Individually assessed write-off	-	-	2	2	-	-	2	2
Interest adjustments	(1)	(7)	(7)	(15)	(1)	(7)	(7)	(15)
Total impairment charges on loans	18	38	29	85	18	37	29	84

Note 7 Income tax expense

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Income tax expense				
Current tax:				
Current year	**290**	243	**281**	238
Prior year	**(5)**	-	**(5)**	-
Deferred tax (refer to Notes 17 and 23):				
Current year	**(33)**	(18)	**(33)**	(19)
Prior year	**4**	-	**4**	-
Change to corporate tax rate [1]	**6**	6	**6**	6
Total income tax expense	**262**	231	**253**	225
Profit before income tax expense	**824**	680	**748**	660
Tax calculated at tax rate of 33%	**272**	225	**247**	219
Income not subject to tax	**(16)**	-	**-**	-
Expenses not deductible for tax purposes	**2**	1	**2**	-
Change to corporate tax rate[1]	**6**	6	**6**	6
Other items	**(2)**	(1)	**(2)**	-
Total income tax expense	**262**	231	**253**	225

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 tax liability balance for the current income tax period, but will do so in future 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 (30 September 2008) and previous reporting period (30 September 2007). The change in tax rate has resulted in a decrease in the net deferred tax asset balance as at 30 September 2008 of $6 million (30 September 2007: $6 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

	The Banking Group		The Bank	
	Year ended 30 September 2008 $m	Year ended 30 September 2007 $m	**Year ended 30 September 2008 $m**	Year ended 30 September 2007 $m
Balance at beginning of the year	**184**	-	**148**	-
Transfers	**3**	30	**3**	3
Imputation credits attached to dividends received during the year	**5**	-	**1**	-
Imputation credits attached to dividends paid during the year	**(165)**	(57)	**(160)**	(57)
Income tax payments during the year	**144**	211	**140**	202
Balance at end of the year	**171**	184	**132**	148

Note 9 Due from other financial institutions

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Loans and advances to other banks	**-**	-	**-**	-
Other	**-**	-	**-**	-
Total due from other financial institutions	**-**	-	**-**	-
Due from other financial institutions:				
At call	**-**	-	**-**	-
Term	**-**	-	**-**	-
Total due from other financial institutions	**-**	-	**-**	-

Note 10 Other trading securities

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Other trading securities				
Trading securities	**1,973**	2,382	**1,973**	2,382
Total other trading securities	**1,973**	2,382	**1,973**	2,382
Trading securities				
Listed				
NZ Government securities	-	24	-	24
Other	-	-	-	-
Total listed trading securities	-	24	-	24
Unlisted				
NZ corporate securities:				
Certificates of deposit	**1,973**	2,342	**1,973**	2,342
Commercial paper	-	16	-	16
Total unlisted trading securities	**1,973**	2,358	**1,973**	2,358
Total trading securities	**1,973**	2,382	**1,973**	2,382

Note 11 Available-for-sale securities

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

As at 30 September 2008, there were no available-for-sale securities pledged as collateral for Banking Group liabilities (30 September 2007: nil).

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

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Balance at beginning of the year	-	-	-	-
Additions	**48**	-	**48**	-
Disposals (sale and redemption)	**(29)**	-	**(29)**	-
Gains from changes in fair value	**16**	-	**16**	-
Balance at end of the year	**35**	-	**35**	-

Note 12 Loans

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Overdrafts	**1,140**	1,067	**1,140**	1,067
Credit card outstandings	**1,149**	1,062	**1,079**	993
Money market loans	**594**	677	**594**	677
Term loans:				
Housing	**31,353**	28,989	**31,241**	28,853
Non-housing	**12,603**	10,778	**12,603**	10,778
Other	**256**	186	**256**	186
Total gross loans	**47,095**	42,759	**46,913**	42,554
Provisions for impairment charges on loans	**(300)**	(200)	**(296)**	(197)
Total net loans	**46,795**	42,559	**46,617**	42,357

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

Note 13 Impaired assets

	The Banking Group		The Bank	
	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	**116**	-	**116**	-
Impaired assets vested during the year	**-**	64	**-**	64
Movement for the year	**167**	52	**167**	52
Balance at end of the year	**283**	116	**283**	116
Undrawn balance	**-**	-	**-**	-
Interest forgone for the year on the above impaired assets[2]	**8**	-	**8**	-
Restructured assets				
Balance at beginning of the year	**2**	-	**2**	-
Restructured assets vested during the year	**-**	-	**-**	-
Movement for the year	**(2)**	2	**(2)**	2
Balance at end of the year	**-**	2	**-**	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**	-	**3,290**	-
Past due assets vested during the year	**-**	2,644	**-**	2,635
Movement for the year	**(1,073)**	653	**(1,072)**	655
Balance at end of the year	**2,224**	3,297	**2,218**	3,290
Past due assets 90+ days[1]				
Balance at beginning of the year	**156**	-	**155**	-
Past due assets vested during the year	**-**	119	**-**	118
Movement for the year	**204**	37	**204**	37
Balance at end of the year	**360**	156	**359**	155
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**	-	**26**	-
Provisions vested during the year	**-**	15	**-**	15
Movement for the year	**39**	11	**39**	11
Balance at end of the year	**65**	26	**65**	26
Collectively impaired provision				
Balance at beginning of the year	**194**	-	**191**	-
Provision vested during the year	**-**	147	**-**	145
Movement for the year	**63**	47	**62**	46
Balance at end of the year	**257**	194	**253**	191
Total impairment provisions	**322**	220	**318**	217
Provisions for impairment on loans	**300**	200	**296**	197
Provisions for impairment on off-balance sheet credit exposures	**22**	20	**22**	20
Total impairment provisions	**322**	220	**318**	217

[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 Banking Group does not have any financial, real estate or other assets acquired through security enforcement. The above table is further analysed by class in the following tables.

As a result of the implementation of the Basel II framework, the 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

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

[1] Past due assets are not impaired assets.

Note 13 Impaired assets (continued)

Other loans for consumer purposes

	The Banking Group		The Bank	
	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**	-	**147**	-
Past due assets vested during the year	**-**	146	**-**	137
Additions	**993**	840	**949**	739
Deletions	**(991)**	(832)	**(946)**	(729)
Balance at end of the year	**156**	154	**150**	147
Past due assets 90+ days[1]				
Balance at beginning of the year	**15**	-	**14**	-
Past due assets vested during the year	**-**	11	**-**	10
Additions	**76**	59	**72**	55
Deletions	**(71)**	(55)	**(67)**	(51)
Balance at end of the year	**20**	15	**19**	14
Undrawn balance	**-**	-	**-**	-
Collectively impaired provision				
Balance at beginning of the year	**49**	-	**46**	-
Provision vested during the year	**-**	40	**-**	38
Impairment charges on loans	**12**	9	**11**	8
Balance at end of the year	**61**	49	**57**	46
Total impairment provisions	**61**	49	**57**	46
Provisions for impairment on loans	**61**	49	**57**	46
Provisions for impairment on off-balance sheet credit exposures	**-**	-	**-**	-
Total impairment provisions	**61**	49	**57**	46

[1] Past due assets are not impaired assets.

Note 13 Impaired assets (continued)

Loans for business purposes

	The Banking Group		The Bank	
	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**	-	**37**	-
Impaired assets vested during the year	**-**	19	**-**	19
Additions	**88**	31	**88**	31
Amounts written off	**(22)**	(5)	**(22)**	(5)
Returned to performing or repaid	**(10)**	(8)	**(10)**	(8)
Balance at end of the year	**93**	37	**93**	37
Undrawn balance	**-**	-	**-**	-
Restructured assets				
Balance at beginning of the year	**2**	-	**2**	-
Restructured assets vested during the year	**-**	-	**-**	-
Additions	**-**	2	**-**	2
Deletions	**(2)**	-	**(2)**	-
Balance at end of the year	**-**	2	**-**	2
Undrawn balance	**-**	-	**-**	-
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	**559**	-	**559**	-
Past due assets vested during the year	**-**	422	**-**	422
Additions	**3,352**	2,595	**3,352**	2,595
Deletions	**(3,317)**	(2,458)	**(3,317)**	(2,458)
Balance at end of the year	**594**	559	**594**	559
Past due assets 90+ days[1]				
Balance at beginning of the year	**81**	-	**81**	-
Past due assets vested during the year	**-**	66	**-**	66
Additions	**351**	134	**351**	134
Deletions	**(238)**	(119)	**(238)**	(119)
Balance at end of the year	**194**	81	**194**	81
Undrawn balance	**-**	-	**-**	-
Individually assessed provisions				
Balance at beginning of the year	**11**	-	**11**	-
Provisions vested during the year	**-**	10	**-**	10
Impairment charges on loans:				
New provisions	**52**	11	**52**	11
Recoveries	**(11)**	(8)	**(11)**	(8)
Impairment charges on loans written off	**(11)**	(2)	**(11)**	(2)
Balance at end of the year	**41**	11	**41**	11
Collectively impaired provision				
Balance at beginning of the year	**125**	-	**125**	-
Provision vested during the year	**-**	94	**-**	94
Impairment charges on loans	**41**	31	**41**	31
Balance at end of the year	**166**	125	**166**	125
Total impairment provisions	**207**	136	**207**	136
Provisions for impairment on loans	**185**	116	**185**	116
Provisions for impairment on off-balance sheet credit exposures	**22**	20	**22**	20
Total impairment provisions	**207**	136	**207**	136

[1] Past due assets are not impaired assets.

Note 14 Credit quality

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

Analysis by class

The Banking Group 2008	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Amount $m
Residential mortgages	**29,543**	**1,620**	**190**	**31,353**	**54**	**31,299**
Other loans for consumer purposes	**1,484**	**176**	**-**	**1,660**	**61**	**1,599**
Loans for business purposes	**13,201**	**788**	**93**	**14,082**	**185**	**13,897**
Total	**44,228**	**2,584**	**283**	**47,095**	**300**	**46,795**

The Banking Group 2007	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Amount $m
Residential mortgages	26,266	2,644	79	28,989	35	28,954
Other loans for consumer purposes	1,362	169	-	1,531	49	1,482
Loans for business purposes	11,562	640	37	12,239	116	12,123
Total	39,190	3,453	116	42,759	200	42,559

The Bank 2008	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Amount $m
Residential mortgages	**29,431**	**1,620**	**190**	**31,241**	**54**	**31,187**
Other loans for consumer purposes	**1,421**	**169**	**-**	**1,590**	**57**	**1,533**
Loans for business purposes	**13,201**	**788**	**93**	**14,082**	**185**	**13,897**
Total	**44,053**	**2,577**	**283**	**46,913**	**296**	**46,617**

The Bank 2007	Neither Past Due nor Impaired $m	Past Due but not Impaired $m	Impaired $m	Total $m	Impairment Allowance $m	Total Carrying Amount $m
Residential mortgages	26,130	2,644	79	28,853	35	28,818
Other loans for consumer purposes	1,301	161	-	1,462	46	1,416
Loans for business purposes	11,562	640	37	12,239	116	12,123
Total	38,993	3,445	116	42,554	197	42,357

Analysis by investment grade

	The Banking Group			**The Bank**		
	2008			**2008**		
	Strong $m	**Good/ Satisfactory $m**	**Weak $m**	**Strong $m**	**Good/ Satisfactory $m**	**Weak $m**
Residential mortgages	**-**	**29,543**	**-**	**-**	**29,431**	**-**
Other loans for consumer purposes	**-**	**1,484**	**-**	**-**	**1,421**	**-**
Loans for business purposes	**1,735**	**10,826**	**640**	**1,735**	**10,826**	**640**
Total	**1,735**	**41,853**	**640**	**1,735**	**41,678**	**640**

	The Banking Group			**The Bank**		
	2007			2007		
	Strong $m	Good/ Satisfactory $m	Weak $m	Strong $m	Good/ Satisfactory $m	Weak $m
Residential mortgages	-	26,266	-	-	26,130	-
Other loans for consumer purposes	-	1,362	-	-	1,301	-
Loans for business purposes	1,993	9,228	341	1,993	9,228	341
Total	1,993	36,856	341	1,993	36,659	341

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

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Goodwill				
Cost	**477**	-	**477**	-
Assets vested during the year	**-**	477	**-**	477
Accumulated impairment	**-**	-	**-**	-
Net carrying amount of goodwill	**477**	477	**477**	477
Computer software				
Cost	**253**	358	**253**	358
Accumulated amortisation and impairment losses	**(151)**	(232)	**(151)**	(232)
Net carrying amount of computer software	**102**	126	**102**	126
Total goodwill and other intangible assets	**579**	603	**579**	603

	The Banking Group			The Bank		
	Goodwill $m	**Computer Software $m**	**Total $m**	**Goodwill $m**	**Computer Software $m**	**Total $m**
Balance as at 1 October 2007	**477**	**126**	**603**	**477**	**126**	**603**
Additions	**-**	**38**	**38**	**-**	**38**	**38**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation	**-**	**(49)**	**(49)**	**-**	**(49)**	**(49)**
Impairment charges	**-**	**(13)**	**(13)**	**-**	**(13)**	**(13)**
Net carrying amount as at 30 September 2008	**477**	**102**	**579**	**477**	**102**	**579**
Balance as at 1 October 2006	-	-	-	-	-	-
Assets vested during the year	477	129	606	477	129	606
Additions	-	32	32	-	32	32
Disposals	-	-	-	-	-	-
Amortisation	-	(35)	(35)	-	(35)	(35)
Impairment charges	-	-	-	-	-	-
Net carrying amount as at 30 September 2007	477	126	603	477	126	603

Goodwill is allocated to and tested for impairment as a part of its identified CGUs. The Banking Group is the CGU that the goodwill has been allocated to.

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

Note 16 Property, plant and equipment

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Leasehold improvements				
Cost	**151**	-	**1**	-
Assets vested/acquired during the year	**-**	135	**-**	1
Accumulated depreciation and impairment losses	**(106)**	(91)	**(1)**	(1)
Net carrying amount of leasehold improvements	**45**	44	**-**	-
Furniture and equipment				
Cost	**195**	-	**107**	-
Assets vested/acquired during the year	**-**	215	**-**	122
Accumulated depreciation and impairment losses	**(164)**	(171)	**(96)**	(105)
Net carrying amount of furniture and equipment	**31**	44	**11**	17
Total property, plant and equipment	**76**	88	**11**	17

	The Banking Group			The Bank		
	Leasehold Improvements $m	**Furniture and Equipment $m**	**Total $m**	**Leasehold Improvements $m**	**Furniture and Equipment $m**	**Total $m**
Balance as at 1 October 2007	**44**	**44**	**88**	**-**	**17**	**17**
Additions	**17**	**3**	**20**	**-**	**3**	**3**
Disposals and assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation	**(10)**	**(14)**	**(24)**	**-**	**(7)**	**(7)**
Impairment charges	**(6)**	**(2)**	**(8)**	**-**	**(2)**	**(2)**
Net carrying amount as at 30 September 2008	**45**	**31**	**76**	**-**	**11**	**11**
Balance as at 1 October 2006	-	-	-	-	-	-
Assets vested/acquired during the year	49	48	97	-	23	23
Additions	6	11	17	-	2	2
Disposals and assets held for sale	(1)	-	(1)	-	-	-
Depreciation	(10)	(15)	(25)	-	(8)	(8)
Net carrying amount as at 30 September 2007	44	44	88	-	17	17

Property, plant and equipment under construction

There are no items of property, plant and equipment that are currently under construction (30 September 2007: nil).

Note 17 Deferred tax assets

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**4**	6	**(5)**	(4)
Provision for loan impairment	**97**	73	**97**	71
Provision for employee entitlements	**18**	22	**18**	22
Other temporary differences	**2**	-	**-**	-
Set off of deferred tax liabilities (refer to Note 21)	**1**	(14)	**1**	(13)
Balance at end of the year	**122**	87	**111**	76
Movements				
Balance at beginning of the year	**87**	-	**76**	-
Assets vested/acquired during the year	**-**	85	**-**	73
Prior year adjustments	**(4)**	-	**(4)**	-
Set off of deferred tax liabilities (refer to Note 21)	**1**	(14)	**1**	(13)
Credited to the income statement (refer to Note 7)	**44**	22	**44**	22
Change to corporate tax rate (refer to Note 7)	**(6)**	(6)	**(6)**	(6)
Balance at end of the year	**122**	87	**111**	76

Note 18 Other assets

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Accrued interest receivable	**160**	153	**158**	152
Other assets	**23**	21	**18**	17
Total other assets	**183**	174	**176**	169

Note 19 Deposits

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Deposits at fair value				
Certificates of deposit	**4,163**	3,535	**4,163**	3,535
Total deposits at fair value	**4,163**	3,535	**4,163**	3,535
Deposits at amortised cost				
Non-interest bearing, repayable at call	**2,030**	2,097	**2,030**	2,097
Other interest bearing:				
At call	**10,951**	10,353	**10,951**	10,353
Term	**15,083**	13,426	**15,083**	13,426
Total deposits at amortised cost	**28,064**	25,876	**28,064**	25,876
Total deposits	**32,227**	29,411	**32,227**	29,411

Note 20 Debt Issues

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Short-term debt				
Commercial paper	**6,517**	9,349	**-**	-
Total short-term debt	**6,517**	9,349	**-**	-
Long-term debt				
Euro medium-term notes	**4,585**	2,350	**1,582**	635
Total long-term debt	**4,585**	2,350	**1,582**	635
Total debt issues	**11,102**	11,699	**1,582**	635

Note 21 Deferred tax liabilities

	The Banking Group 2008 $m	The Banking Group 2007 $m	The Bank 2008 $m	The Bank 2007 $m
Deferred tax liabilities are attributable to the following:				
Other temporary differences	**-**	4	**-**	3
Amounts recognised directly in equity	**(1)**	10	**(1)**	10
Set off of deferred tax assets (refer to Note 17)	**1**	(14)	**1**	(13)
Change to corporate tax rate (refer to Note 7)	**-**	-	**-**	-
Balance at end of the year	**-**	-	**-**	-
Movements				
Balance at beginning of the year	**-**	-	**-**	-
Set off of deferred tax assets (refer to Note 17)	**1**	(14)	**1**	(13)
Charged to the income statement (refer to Note 7)	**11**	4	**11**	3
(Credited)/charged to equity	**(12)**	10	**(12)**	10
Balance at end of the year	**-**	-	**-**	-

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 22 Provisions

	The Banking Group 2008 $m	The Banking Group 2007 $m	The Bank 2008 $m	The Bank 2007 $m
Long service leave	**7**	7	**7**	7
Annual leave and other staff benefits	**33**	25	**33**	25
Non-lending losses	**5**	2	**5**	2
Provisions for impairment on off-balance sheet credit exposures	**22**	20	**22**	19
Total provisions	**67**	54	**67**	53

	Long Service Leave $m	Annual Leave and Other Staff Benefits $m	Non-lending Losses $m	Off-balance Sheet Provisions $m	Total $m
The Banking Group					
Balance as at 1 October 2007	**7**	**25**	**2**	**20**	**54**
Additional provisions recognised	**1**	**20**	**3**	**2**	**26**
Utilised during the year	**(1)**	**(12)**	**-**	**-**	**(13)**
Balance as at 30 September 2008	**7**	**33**	**5**	**22**	**67**
The Bank					
Balance as at 1 October 2007	**7**	**25**	**2**	**19**	**53**
Additional provisions recognised	**1**	**20**	**3**	**3**	**27**
Utilised during the year	**(1)**	**(12)**	**-**	**-**	**(13)**
Balance as at 30 September 2008	**7**	**33**	**5**	**22**	**67**

Note 23 Other liabilities

	The Banking Group 2008 $m	The Banking Group 2007 $m	The Bank 2008 $m	The Bank 2007 $m
Accrued interest payable	**455**	413	**355**	253
Credit card loyalty programme	**25**	29	**25**	29
Other liabilities	**186**	152	**178**	147
Total other liabilities	**666**	594	**558**	429

Note 24 Priority of financial liabilities in the event of liquidation

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Deposits at amortised cost	**28,064**	25,876	**28,064**	25,876
Deposits at fair value	**4,163**	3,535	**4,163**	3,535
Debt issues	**11,102**	11,699	**1,582**	635
Other liabilities	**666**	594	**558**	429
Perpetual subordinated notes	**970**	970	**970**	970
Due to related entities	**2,249**	1,577	**11,843**	12,772
Total financial liabilities	**47,214**	44,251	**47,180**	44,217

Note 25 Perpetual subordinated notes

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

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Perpetual subordinated notes	**970**	970	**970**	970
Total subordinated notes	**970**	970	**970**	970

On 31 August 2006, the Bank issued $700,000,000 perpetual subordinated notes and on 31 October 2006, the Bank issued a further $270,000,000 perpetual subordinated notes to Westpac New Zealand Group Limited under the same terms and conditions outlined above.

Note 26 Share capital

	The Banking Group		The Bank	
	2008 Number of Issued Shares	2007 Number of Issued Shares	**2008 Number of Issued Shares**	2007 Number of Issued Shares
Ordinary shares at beginning of the year	**2,415,001,000**	1,700,001,000	**2,415,001,000**	1,700,001,000
Shares issued during the year	**835,000,000**	715,000,000	**835,000,000**	715,000,000
Ordinary shares at end of the year	**3,250,001,000**	2,415,001,000	**3,250,001,000**	2,415,001,000
	$m	$m	**$m**	$m
Ordinary shares at beginning of the year	**2,415**	1,700	**2,415**	1,700
Shares issued during the year	**835**	715	**835**	715
Ordinary shares at end of the year	**3,250**	2,415	**3,250**	2,415

	The Banking Group		The Bank	
	2008 Number of Issued Shares	2007 Number of Issued Shares	**2008 Number of Issued Shares**	2007 Number of Issued Shares
Redeemable preference shares at beginning of the year	**-**	-	**-**	-
Shares issued during the year	**1,300,000,000**	-	**1,300,000,000**	-
Redeemable preference shares at end of the year	**1,300,000,000**	-	**1,300,000,000**	-
	$m	$m	**$m**	$m
Redeemable preference shares at beginning of the year	**-**	-	**-**	-
Shares issued during the year	**1,300**	-	**1,300**	-
Redeemable preference shares at end of the year	**1,300**	-	**1,300**	-

	The Banking Group		The Bank	
	2008 Number of Issued Shares	2007 Number of Issued Shares	**2008 Number of Issued Shares**	2007 Number of Issued Shares
B Voting shares at beginning of the year	**-**	-	**-**	-
Shares issued during the year	**20,000**	-	**20,000**	-
B Voting shares at end of the year	**20,000**	-	**20,000**	-
	$m	$m	**$m**	$m
B Voting shares at beginning of the year	**-**	-	**-**	-
Shares issued during the year	**0.02**	-	**0.02**	-
B Voting shares at end of the year	**0.02**	-	**0.02**	-

All shares issued are fully paid as at balance date. On 31 October 2006, the Bank issued 715,000,000 ordinary shares for $715,000,000. On 1 February 2008, the Bank issued 85,000,000 ordinary shares for $85,000,000. On 20 February 2008, the Bank issued 20,000 B Voting shares for $20,000 and 1,300,000,000 redeemable preference shares ('**RPS**') for $1,300,000,000. On 29 August 2008, the Bank issued 750,000,000 ordinary shares for $750,000,000.

In accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B), ordinary share capital is classified as Tier One Capital. The B Voting shares are classified as Tier Two Capital and the RPS are neither Tier One nor Tier Two Capital.

Ordinary shares

The ordinary shares in the Bank confer on their holder the rights described in section 36 of the Companies Act 1993, i.e. subject to the constitution of the Bank, each share carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation. Under the constitution of the Bank, there is provision for the Board to authorise a dividend which is of a greater value per share for some shares than it is for others, so long as the amount paid is in proportion to the amount paid up on the shares.

Redeemable preference shares

The 1,300,000,000 RPS were issued for consideration of $1 per share. The holders of RPS have no voting rights. The RPS have a term of 100 years and can be redeemed at any time at the option of the Bank (on 30 days notice) for their issue price. There are restrictions on the transfer of the RPS.

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

B Voting shares

The holder of each B Voting share is entitled to cast 31,250 votes at meetings of shareholders (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast). Dividends are payable on the same terms as the RPS.

Note 27 Related entities

Bank

The Bank is a subsidiary of Westpac New Zealand Group Limited. The ultimate parent bank of the Bank is Westpac Banking Corporation.

Banking Group

The Banking Group consists of the Bank and all its subsidiaries. As at 30 September 2008, the Bank has the following subsidiaries:

Name of Subsidiary	Principal Activity	Notes
Westpac NZ Operations Limited	Holding company	
Westpac Securities NZ Limited	Funding company	
Westpac (NZ) Investments Limited	Property owning and capital funding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned

The Banking Group together with its subsidiaries provide retail and corporate banking services.

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the Banking Group have a balance date of 30 September and are incorporated in New Zealand.

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

- Electronic Transaction Services Limited; and
- Interchange and Settlement Limited.

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

Investment in associate

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

The Banking Group holds 15.4 % of Cards NZ Limited's equity plus one Visa Inc access preference share.

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $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 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.

Nature of transactions

Loan finance and current account banking facilities are provided by the Bank and the Ultimate Parent Bank to the other members of the Banking Group on normal commercial terms. Members of the Banking Group earn interest on deposits with the Bank and the Ultimate Parent Bank.

Members of the Banking Group have loans from the Bank and the Ultimate Parent Bank. Interest is paid on these loans at market rates.

A member of the Ultimate Parent Bank has a loan with the Bank. Interest is paid on this loan at market rates.

The Bank may pay subvention payments to the members of the Ultimate Parent Bank's New Zealand group for the use of tax losses. The total payment made by the Bank for the year ended 30 September 2008 was $150 million (30 September 2007: nil). Payments made for tax loss transfers between members of the Ultimate Parent Bank's New Zealand group are determined having regard to the circumstances of the entities and the value of the tax losses.

Life insurance products are sold by the Bank on behalf of the Ultimate Parent Bank. The Bank receives commission from these sales. Commission received for the year ended 30 September 2008 was $36 million (30 September 2007: $23 million).

The Ultimate Parent Bank provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Bank. The Bank receives commission from these sales. Commission received for the year ended 30 September 2008 was $12 million (30 September 2007: $9 million).

Managed funds products are sold by the Bank on behalf of the Ultimate Parent Bank. The Bank receives commission from these sales. Commission received for the year ended 30 September 2008 was $6 million (30 September 2007: $6 million).

The Ultimate Parent Bank provides enterprise management services to the Bank for which it received a service fee of $11 million for the year ended 30 September 2008 (30 September 2007: $8 million).

The Bank provides Corporate Office Support Services to members of the Ultimate Parent Bank for which the Bank received a service fee of $2 million for the year ended 30 September 2008 (30 September 2007: $2 million).

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid for the year ended 30 September 2008 were $5 million (30 September 2007: $5 million). Rental income is paid by the Bank to Westpac (NZ) Investments Limited. The total charge for the year ended 30 September 2008 was $77 million (30 September 2007: $68 million).

Note 27 Related entities (continued)

A member of the Banking Group provides funding to the Bank. Management fees are paid by the Bank for these services. Management fees paid for the year ended 30 September 2008 were $1 million (30 September 2007: $1 million).

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

On 29 August 2008, the Bank issued 750,000,000 ordinary shares to Westpac New Zealand Group Limited, its parent company for $750,000,000.

On 1 February 2008, the Bank issued 85,000,000 ordinary shares to Westpac New Zealand Group Limited, its parent company, for $85,000,000.

On 20 February 2008, the Bank issued 20,000 B Voting shares for $20,000 and 1,300,000,000 RPS for $1,300,000,000. The B Voting shares and RPS were issued as part of transactions with Westpac Overseas Holdings No. 2 Pty Limited, and Sixty Martin Place (Holdings) Pty Limited (a subsidiary of the Ultimate Parent Bank) as general partner of the Westpac Pacific Limited Partnership (the '**Partnership**'). The Partnership has subscribed for the RPS.

On 31 October 2006, the Bank issued 715,000,000 ordinary shares for $715,000,000.

On 31 October 2006, the Bank issued $270,000,000 perpetual subordinated notes to Westpac New Zealand Group Limited, parent company, under the same terms and conditions as outlined in Note 25.

On 1 November 2006, a member of the Ultimate Parent Bank, 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 NZ Operations Limited. These companies were purchased at the net asset value as at 31 October 2006 on 1 November 2006. This resulted in a gain on sale for Westpac Holdings - NZ - Limited of $36 million. Refer to Note 54.

During the financial year, the Banking Group purchased VISA Inc shares from Cards NZ Limited at fair market value totalling $48 million. The purchase was satisfied through the issue of an interest bearing promissory note. Interest paid on the promissory note during the year was $1 million.

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

Note 28 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 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.

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

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

The Banking Group uses derivatives as an end-user as part of its asset and liability management activities.

Hedging

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

Fair value hedges

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

For the Banking Group, the change in the fair value of hedging instruments designated in fair value hedges was a $404 million loss (30 September 2007: $151 million gain) while the change in the fair value of hedged items, attributed to the hedge risk was a $403 million gain (30 September 2007: $155 million loss).

For the Bank, the change in the fair value of hedging instruments designated in fair value hedges was a $404 million loss (30 September 2007: $151 million gain) while the change in the fair value of hedged items, attributed to the hedge risk was a $403 million gain (30 September 2007: $155 million loss).

Cash flow hedges

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps.

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

Note 28 Derivative financial instruments (continued)

	The Banking Group and The Bank		
	2008		
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	**27,347**	**49**	**(37)**
Foreign exchange derivatives			
Swaps	**9,298**	**231**	**(70)**
Total held for trading derivatives	**36,645**	**280**	**(107)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**21,274**	**8**	**(316)**
Total fair value hedging derivatives	**21,274**	**8**	**(316)**
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	**1,164**	**2**	**(4)**
Total cash flow hedging derivatives	**1,164**	**2**	**(4)**
Total derivatives	**59,083**	**290**	**(427)**

	The Banking Group and The Bank		
	2007		
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	626	-	(9)
Foreign exchange derivatives			
Swaps	10,372	-	(134)
Total held for trading derivatives	10,998	-	(143)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	18,446	177	(8)
Foreign exchange derivatives			
Swaps	587	9	(6)
Total fair value hedging derivatives	19,033	186	(14)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	2,071	35	-
Total cash flow hedging derivatives	2,071	35	-
Total derivatives	32,102	221	(157)

Note 28 Derivative financial instruments (continued)

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

	The Banking Group and The Bank							
	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)	**2**	**14**	**31**	**28**	**21**	**4**	**-**	**-**
Cash outflows (liabilities)	**2**	**12**	**30**	**30**	**22**	**4**	**-**	**-**

	The Banking Group and The Bank							
	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)	8	7	33	24	15	11	2	-
Cash outflows (liabilities)	7	7	32	24	16	12	2	-

For the year ended 30 September 2008, no material gain/loss on cash flow hedges was recognised due to hedge ineffectiveness (30 September 2007: nil) in the Banking Group or the Bank. Gain/loss on fair value hedges due to hedge ineffectiveness recognised for the Banking Group and the Bank for the year ended 30 September 2008, amounted to a $1 million loss (30 September 2007: $4 million loss).

Note 29 Interest earning assets and interest bearing liabilities

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Interest earning and discount bearing assets	**51,382**	46,088	**51,145**	45,883
Interest and discount bearing liabilities	**44,203**	41,517	**44,289**	41,648

Note 30 Fair value of financial instruments

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

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

Certain short-term financial instruments

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

Trading securities

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

Loans

The fair value of loans is determined by discounting all future cash flows, including interest accruals. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.

Deposits

Deposits by customer accounts are grouped by maturity. Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities.

Debt issues

The estimated fair value of debt issues is based on market quoted prices, where available. The fair value of debt issues where a market quote is not available is based on discounted cash flows, using a rate appropriate to the instrument and the term of the issue.

Note 30 Fair value of financial instruments (continued)

Perpetual subordinated notes

The fair value is calculated using suitable discounted cash flow and option pricing models. The interest rates applied in the valuation models are appropriate to the remaining term of the debt issue.

Other financial assets and liabilities

The carrying amount of these items is a reasonable approximation of fair value as they are either short-term in nature, reprice frequently or are of a high credit rating.

Exchange rate and interest rate contracts

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

	The Banking Group			
	2008 Carrying Amount $m	**2008 Estimated Fair Value $m**	2007 Carrying Amount $m	2007 Estimated Fair Value $m
Financial assets				
Cash	**110**	**110**	102	102
Due from other financial institutions	**-**	**-**	-	-
Other trading securities	**1,973**	**1,973**	2,382	2,382
Available-for-sale securities	**35**	**35**	-	-
Loans	**46,795**	**46,701**	42,559	42,210
Due from related entities	**2,364**	**2,364**	1,022	1,022
Investment in associate	**48**	**48**	-	-
Other financial assets	**183**	**183**	174	174
Total financial assets	**51,508**	**51,414**	46,239	45,890
Non-financial assets	**777**	**N/A**	778	N/A
Total assets	**52,285**		47,017	
Financial liabilities				
Deposits at fair value	**4,163**	**4,163**	3,535	3,535
Deposits at amortised cost	**28,064**	**28,098**	25,876	25,934
Debt issues	**11,102**	**11,214**	11,699	11,638
Other financial liabilities	**666**	**666**	594	594
Perpetual subordinated notes	**970**	**970**	970	970
Due to related entities	**2,249**	**2,249**	1,577	1,577
Total financial liabilities	**47,214**	**47,360**	44,251	44,248
Non-financial liabilities	**136**	**N/A**	85	N/A
Total liabilities	**47,350**		44,336	

Note 30 Fair value of financial instruments (continued)

	The Bank			
	2008 Carrying Amount $m	**2008 Estimated Fair Value $m**	2007 Carrying Amount $m	2007 Estimated Fair Value $m
Financial assets				
Cash	**110**	**110**	102	102
Other trading securities	**1,973**	**1,973**	2,382	2,382
Available-for-sale securities	**35**	**35**	-	-
Loans	**46,617**	**46,523**	42,357	42,008
Due from related entities	**2,317**	**2,317**	1,022	1,022
Investments in related entities	**238**	**238**	238	238
Other financial assets	**176**	**176**	169	169
Total financial assets	**51,466**	**51,372**	46,270	45,921
Non-financial assets	**701**	**N/A**	696	N/A
Total assets	**52,167**		46,966	
Financial liabilities				
Deposits at fair value	**4,163**	**4,163**	3,535	3,535
Deposits at amortised cost	**28,064**	**28,098**	25,876	25,934
Debt issues	**1,582**	**1,612**	635	627
Other financial liabilities	**558**	**558**	429	429
Perpetual subordinated notes	**970**	**970**	970	970
Due to related entities	**11,843**	**11,843**	12,772	12,772
Total financial liabilities	**47,180**	**47,244**	44,217	44,267
Non-financial liabilities	**135**	**N/A**	88	N/A
Total liabilities	**47,315**		44,305	

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 current financial year in the Banking Group and the Bank was nil (30 September 2007: nil).

Note 31 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 30 September 2008 were New Zealand dollar equivalent $9,520 million (30 September 2007: $11,064 million).

Note 31 Commitments and contingent liabilities (continued)

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

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Commitments for capital expenditure				
Due within one year	**47**	35	**47**	35
Other expenditure commitments:				
One year or less	**67**	53	**67**	53
Between one and five years	**67**	103	**67**	103
Over five years	**-**	-	**-**	-
Total other expenditure commitments	**134**	156	**134**	156
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**228**	199	**228**	199
Motor vehicles	**4**	3	**4**	3
Total lease commitments	**232**	202	**232**	202
Lease commitments are due as follows:				
One year or less	**42**	36	**42**	36
Between one and five years	**97**	93	**97**	93
Over five years	**93**	73	**93**	73
Total lease commitments	**232**	202	**232**	202
Contingent liabilities				
Direct credit substitutes	**52**	62	**52**	62
Underwriting and sub-underwriting facilities	-	-	-	-
Transaction related contingent items	**281**	282	**281**	282
Short-term, self liquidating trade related contingent liabilities	**788**	687	**788**	687
Total contingent liabilities	**1,121**	1,031	**1,121**	1,031

Other contingent liabilities

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

The New Zealand Commerce Commission's proceedings against the Bank and The Warehouse Financial Services Limited (a member of the 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 Bank 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.

The New Zealand Inland Revenue Department ('**NZIRD**') has reviewed 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 included 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.

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 30 September 2008 was estimated to be $21 million (30 September 2007: $21 million). The Bank believes it is highly unlikely that it would incur a material operating loss as a result of this in the normal course of its business operations.

Other commitments

As at 30 September 2008, 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. Please refer to Note 38, 49 and 50. Accordingly, it is not envisaged that any liability resulting in material loss to the Banking Group will arise from these transactions.

Note 32 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 33 Superannuation commitments

The Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the Banking Group as required. 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 fund within the scheme are at a rate sufficient to keep the scheme solvent, and based on actuarial assessments.

The Banking Group's defined benefit superannuation scheme provides lump sum and superannuation benefits. The Banking Group's contributions for the year ended 30 September 2008 were $1 million (30 September 2007: $1 million).

The 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 Banking Group's obligations in respect of its defined benefit superannuation scheme was as follows:

	The Banking Group and The Bank	
	2008 $m	2007 $m
Present value of wholly unfunded obligations	**117**	110
Fair value of plan assets	**(74)**	(99)
Present value of net obligations	**43**	11
Actuarial gains not recognised in the balance sheet	**(20)**	13
Net losses 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 Banking Group with a fair value of $7 million (30 September 2007: $19 million).

	The Banking Group and The Bank	
	2008 $m	2007 $m
Movements in the net assets recognised in the balance sheet		
Net assets at beginning of the year	**24**	-
Net assets vested during the year	**-**	29
Net expense recognised in the income statement	**-**	(4)
Contributions paid	**(1)**	(1)
Net assets 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 year ended 30 September 2008 in respect of the defined benefit superannuation scheme were as follows:

	The Banking Group and The Bank	
	2008 $m	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)

Note 33 Superannuation commitments (continued)

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

	The Banking Group and The Bank	
	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
Future salary increases	**3.5**	3.5
Other material actuarial assumptions – pension increases	**2.5**	2.5

Note 34 Key management disclosures

Key management compensation

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

	The Banking Group and The Bank	
	Year ended 30 September 2008 $'000	Year ended 30 September 2007 $'000
Salaries and other short-term benefits	**7,314**	7,122
Post-employment benefits	**505**	519
Other termination benefits	**150**	1,090
Share-based payment	**839**	1,980
Total key management compensation	**8,808**	10,711

The Directors have received remuneration from the Banking Group. This is included in the table 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 Bank and the Banking Group, on an arm's length basis and on normal commercial terms and conditions. Loans are on terms of repayment that range between variable, fixed rate up to five years and interest only loans, all of which are in accordance with the Banking Group's lending policies.

As at 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.

Share based payments

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

(i) Westpac Reward Plan

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

Under the WRP senior managers may be invited to receive an award of performance options, with an exercise price based on the prevailing market price of Ultimate Parent Bank's ordinary shares at the time of the invitation. The options may vest over a three to five year period from the date they are granted, provided a performance hurdle of relative Total Shareholder Return ('**TSR**')[1] is met or exceeded by the Ultimate Parent Bank. The comparator group for TSR focuses on 10 Australian financial sector peers. Full vesting of performance options occurs when the Ultimate Parent Bank's TSR is at (or exceeds) the 75th percentile relative to the comparator group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance, no vesting occurs.

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

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

---

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

Note 34 Key management disclosures (continued)

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

The first grant of WRP performance options was made on 17 December 2007, when 179,613 were granted to employees of the Bank with an exercise price of A$30.10 and a last date for exercise of 17 December 2017. There have been no subsequent grants to date. The fair value per performance option at grant date was A$3.61. As at 30 September 2008, there were 179,613 performance options outstanding with a remaining contractual life of 9.2 years.

(ii) Westpac Performance Plan

The WPP was introduced in 2002 and was used to provide awards of performance options and/or performance share rights to senior executives and other key employees until December 2006. Existing awards continue to run their course. Currently the WPP is used for employees based outside Australia, to provide long-term incentive awards or as a mechanism for the mandatory deferral of a portion of their short-term incentive.

An option or share right under the WPP is the right to acquire an ordinary share of the Ultimate Parent Bank in the future provided all conditions are met, at an exercise price generally set at the time the invitation is made. The exercise price for options is equal to the average market price of the Ultimate Parent Bank's ordinary shares traded on the Australian Securities Exchange ('**ASX**') over the five trading days up to the time the invitation is made. The exercise price for share rights is nil. Awards of options or share rights under the WPP have a life of up to 10 years from grant.

Performance options and performance share rights

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

For grants made up to November 2005, the ranking group is the 50 largest companies listed on the ASX by market capitalisation at the commencement of the performance period (excluding the Ultimate Parent Bank, property and investment trusts and certain specified resources companies).

For grants made after November 2005, 50% of the award is assessed against a TSR ranking group of the top 10 of the largest 13 Australian banking and financial sector companies by market capitalisation at the time of grant (excluding the Ultimate Parent Bank). The other 50% assesses TSR performance against a ranking group of the 50 largest companies on the ASX by market capitalisation at the time of grant (excluding the Ultimate Parent Bank , specified resource companies and the first ranking group).

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

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

Unhurdled share rights

The WPP is also used for key employees based outside Australia and the USA, who in 2008 received unhurdled share rights, which vest after a set period of two to three years service with the Ultimate Parent Bank. After the restriction period applying to them has passed, vested unhurdled share rights can be exercised to receive the underlying fully paid ordinary shares. The exercise price for share rights is nil.

The following tables summarises grants of hurdled options and hurdled and unhurdled share rights to employees of the Bank under the WPP in the current and comparative reporting periods:

Share rights

Grant date	Latest date for exercise	Expected vesting date	Number of shares	Exercise price A$	Fair value at grant date A$	Outstanding number of shares as at 30 September 2008
Unhurdled						
17 December 2007	17 December 2017	17 December 2009	14,193	nil	25.60	12,633
17 December 2007	17 December 2017	17 December 2010	112,141	nil	24.35	103,891
15 December 2006	15 December 2016	15 December 2009	141,850	nil	20.60	92,626
Hurdled						
15 December 2006	15 December 2016	15 December 2008	31,055	nil	13.74	7,065
15 December 2006	15 December 2016	15 December 2008	29,183	nil	13.54	6,639

Note 34 Key management disclosures (continued)

Options

No performance options were granted under the WPP during from 1 October 2007 and 30 September 2008.

Grant date	Latest date for exercise	Expected vesting date	Number of shares	Exercise price A$	Fair value at grant date A$	Outstanding number of shares as at 30 September 2008
15 December 2006	15 December 2016	15 December 2009	143,500	23.98	2.74	32,652
15 December 2006	15 December 2016	15 December 2009	137,979	23.98	2.68	31,395

Fair value assumptions

The fair value of options and share rights have been independently calculated at grant date using a Binomial/Monte Carlo simulation pricing model.

- The assumptions included in the valuation of the 17 December 2007 awards of performance options under the WRP include a risk free interest rate of 6.26%, a dividend yield on the Ultimate Parent Bank's shares of 5% and volatility in the Ultimate Parent Bank's share price of 18%.
- The assumptions included in the valuation of the awards of unhurdled share rights under the WPP include a risk free interest rate ranging from 6.65% to 6.71%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and volatility in the Ultimate Parent Bank's share price of 18%.
- Volatility has been assessed by considering the implied volatility of publicly traded options over the Ultimate Parent Bank's ordinary shares and the historic volatility of the market price of the Ultimate Parent Bank's shares.
- Other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and the Ultimate Parent Bank's, which are used to assess the impact of performance hurdles.
- Options and share rights have been valued assuming an expected life after the vesting date of up to one year.

Note 35 Securitisation, funds management and other fiduciary activities

Securitisation

As at 30 September 2008, the Bank and the Banking Group had securitised assets amounting to $596 million (30 September 2007: $608 million), all having been sold by the Bank and the Banking Group to the Westpac Home Loan Trust ('**HLT**') and the Westpac Mortgage Investment Fund ('**MIF**') via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. Refer to Westpac Banking Corporation's General Disclosure Statement for the year ended 30 September 2008 (Note 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products) for further information. The Bank and the Banking Group receives fees for various services provided to HLT and MIF on an arm's length basis, including servicing 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 Bank Group, through its branch, advisory network and private bank. The Bank derives distribution fees from the sale of managed fund products, superannuation and unit trusts marketed on behalf of BT Funds Management (NZ) Limited. The Bank also provides investment advice to a number of clients, which includes the provision of other fiduciary activities.

Marketing and distribution of insurance products

The Bank markets and distributes both life and general insurance products. The life insurance products are underwritten by Westpac Life - NZ - Limited (a member of the Ultimate Parent Bank Group). The general insurance products are 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

During the year ended 30 September 2008:

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

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 during the three months ended 30 September 2008 (three months ended 30 September 2007: nil).

Note 35 Securitisation, funds management and other fiduciary activities (continued)

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 36 Insurance business

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

Note 37 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the document 'Capital adequacy framework (internal models based approach)' (BS2B) issued by the Reserve Bank of New Zealand.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Reserve Bank of New Zealand in supervising the Banking Group.

During the past financial year, the Banking Group had complied in full with all its externally imposed capital requirements.

Capital management

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

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

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

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

Current target capital structure	%
Minimum tier one ratio	**5.5**
Minimum total regulatory ratio	**9.0**

2. The Banking Group calculates the capital that is required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios. The Banking Group has no appetite for breaching the lower limits of its target ranges.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('**BSR**'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements made.

Summary of internal capital adequacy assessment process

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring that it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank of New Zealand document 'Prudential standard' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks. The Banking Group's ICAAP is founded on the core principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The connection between these two concepts is provided by economic capital, which the Ultimate Parent Bank Group believes to be the best single measure of overall risk profile. The economic capital requirement is calibrated to the Banking Group's target senior debt rating which is one of the key parameters defined in the risk appetite statement. In addition to the economic capital based principles outlined above, the ICAAP also takes account of stress testing, prudential minimum capital ratios, thin capitalisation requirements and peer group comparatives.

Internal capital for other material risk

	The Banking Group
Internal capital allocation	2008 Unaudited $m
Other material risk	**367**

Other material risk is a combination of business risk, liquidity risk and other asset risk. These risks are defined below.

Note 37 Capital adequacy (continued)

Business risk

Business risk reflects the risk associated with earnings volatility not captured in other risk categories.

Liquidity risk

Liquidity risk is the risk associated with the unexpected costs of ensuring demands for cash are met.

Other asset risk

Other asset risk reflects the strategic risk associated with the composition of the balance sheet that is not reflected in other risk categories.

Basel II

The new global capital adequacy regime, known as Basel II, represents a major step in the evolution of risk and capital management and in prudential supervision of banking systems. The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for new minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Schedule 5B, Clause 14 of the Order and represents capital adequacy calculation based on the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group
	2008 Unaudited
Capital adequacy ratios	
Tier One Capital expressed as a percentage of risk-weighted exposures	**9.5%**
Total capital expressed as a percentage of risk-weighted exposures	**12.3%**
Reserve Bank of New Zealand minimum ratios:	
Tier One Capital expressed as a percentage of risk-weighted exposures	**4.0%**
Total capital expressed as a percentage of risk-weighted exposures	**8.0%**

Basel I

The table below is disclosed in accordance with Schedule 5B, Clause 15 of the Order and represents capital adequacy calculation based on the Basel I Capital adequacy framework.

For the purposes of calculating the capital adequacy ratios for the Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue Department and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

	The Banking Group		The Bank	
	2008 Unaudited	2007 Unaudited	**2008 Unaudited**	2007 Unaudited
Capital adequacy ratios				
Tier One Capital expressed as a percentage of risk-weighted exposures	**7.6%**	6.6%	**7.4%**	6.6%
Total capital expressed as a percentage of risk-weighted exposures	**14.5%**	9.7%	**14.3%**	9.6%
Reserve Bank of New Zealand minimum ratios[1]:				
Tier One Capital expressed as a percentage of risk-weighted exposures	**N/A**	4.0%	**N/A**	4.0%
Total capital expressed as a percentage of risk-weighted exposures	**N/A**	8.0%	**N/A**	8.0%
Total risk-weighted exposures ($m)	**36,707**	31,063	**36,655**	31,091

1 The Basel I capital adequacy framework minimum capital ratios imposed on the Bank by the Reserve Bank of New Zealand were removed and replaced by minimum ratios under the Basel II regime from 31 March 2008 onwards.

Note 37 Capital adequacy (continued)

The Banking Group capital summary

	The Banking Group 2008 Unaudited $m
Tier One Capital	
Paid up share capital	3,250
Revenue and similar reserves[1]	(182)
Current year's retained profits	559
Minority interests	8
Less deductions from Tier One Capital	
Goodwill	(477)
Other intangible assets	(102)
Cash flow hedge reserve	3
Expected loss excess over eligible allowance	(73)
Total Tier One Capital	2,986
Tier Two Capital – Upper Tier Two Capital	
Perpetual subordinated notes	970
Current year's unaudited retained profits	-
Less deductions from Tier Two Capital	
Expected loss excess over eligible allowance	(73)
Tier Two Capital – Lower Tier Two Capital	-
Total Tier Two Capital	897
Total Tier One Capital plus Tier Two Capital	3,883

[1] Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities revaluation reserve and prior year retained profits.

The Banking Group total capital requirement for the year ended 30 September 2008

	Total Exposure After Credit Risk Mitigation Unaudited $m	Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited $m	Total Capital Requirement Unaudited $m
Total credit risk	62,043	26,956	2,157
Operational risk	N/A	2,135	171
Market risk	N/A	951	76
Supervisory adjustment	N/A	1,506	120
Total		31,548	2,524

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

Ultimate Parent Bank Group capital adequacy ratios as at 30 September 2008

Basel II

	2008 Unaudited %
Ultimate Parent Bank Group	
Tier One Capital expressed as a percentage of risk-weighted exposures	7.8
Total capital expressed as a percentage of risk-weighted exposures	10.8
Ultimate Parent Bank (Extended Licensed Entity)	
Tier One Capital expressed as a percentage of risk-weighted exposures	7.9
Total capital expressed as a percentage of risk-weighted exposures	11.4

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

Note 37 Capital adequacy (continued)

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

Basel I

	%
Ultimate Parent Bank 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
Ultimate Parent 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

Note 38 Risk management overview

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

The Risk Management Framework and governance

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

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

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

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

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

The Bank's Risk Management Framework and governance

The Bank's Risk Management Framework consists of the policies, procedures, systems, processes, data, roles and responsibilities and controls that manage the application and governance of risk and support the risk appetite determinations of the Board.

Governance is an essential element in achieving effective oversight and management of the Bank's risk. Effectively managing the risks inherent in the business is a key strategy of the Bank as well as providing support for the Bank's reputation, performance and future success. This Risk Management Framework is approved by the Board and implemented through the Bank's Chief Executive Officer ('**CEO**') and the executive management team, further supported by the New Zealand Risk Committee ('**NZRC**'), which overviews all risk in the New Zealand operation.

Implementation is achieved through developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

Risk appetite and risk types

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

- Compliance risk: the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and of failing to meet the Bank's own ethical standards.
- Liquidity risk: is the risk of not meeting payment obligations, which could arise as result of mismatched cash flows generated by the Bank's business.
- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Note 38 Risk management overview (continued)

- Market risk: the risk to earnings from changes in market factors. These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process are:
  - Currency risk: the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
  - Interest rate risk: the potential loss arising from the changes in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Other risks:
  - Equity risk – the potential for financial loss arising from movements in the value of the Bank's direct and indirect equity investments.
  - Model risk – the risk of financial, reputational or operational losses arising because of an error of fact or assumption within a model.
  - Reputational risk – the risk of negative experiences and perceptions impacting the Bank's standing with stakeholders.
  - Business risk – the risk associated with the vulnerability of a line of business to changes in the business environment.

The following principles are applied to these risks:

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

Management assurance programme

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

This programme allows senior management to affirm their satisfaction with the quality of the processes under their responsibility and with the effectiveness of the controls that support that assurance. 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 & Compliance Committee ('**NZOPCO**'), chaired by the CEO. The CEO then provides management assurance to the Ultimate Parent Bank Board Risk Management Committee ('**BRMC**'), the Ultimate Parent Bank Board Audit Committee ('**BAC**') and the CEO of the Ultimate Parent Bank.

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

Independent control units

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

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

Note 39 Compliance risk

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

Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

The Bank has a dedicated Operational Risk and Compliance function.

NZOPCO 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, Group Operational Risk and Compliance Committee ('**OPCO**') and the BRMC, where material.

Note 40 Liquidity risk

The liquidity risk within the Bank is managed in a manner consistent with the Ultimate Parent Bank Group's liquidity management framework that is outlined below.

Liquidity risk is the potential inability to meet payment obligations of the Bank. The Ultimate Parent Bank's Group Treasury Unit administers liquidity management in New Zealand and is responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

The Ultimate Parent Bank Group's Treasury manages the Banking Group's funding with oversight from the NZBRC, Market Risk Committee ('**MARCO**'), BRMC, and the Banking Book Risk Committee ('**BBRC**'). The BRMC approves and monitors a range of policies relating to liquidity and liability generation. Quarterly compliance reports are submitted to the NZBRC, Group MARCO and the BRMC.

Key aspects of the liquidity management strategy are as follows:

Annual liquidity risk framework review

The Ultimate Parent Bank Group Treasury's annual liquidity management review includes:

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

The NZBRC, MARCO and the Ultimate Parent Bank Group Risk Reward Committee ('**GRRC**') review the Banking Group's liquidity management approach before it is submitted for approval by the BRMC.

The liquidity risk management framework models the Bank's ability to fund under both normal conditions and during a crisis situation. This approach seeks to ensure that this funding framework is sufficiently flexible to provide liquidity under a wide range of market conditions.

Annual funding plan

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

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

The MARCO and the GRRC review the Annual Funding Plan before it is submitted for approval by the BRMC. The Westpac New Zealand Funding Plan is reviewed by the NZBRC.

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 Bank'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 Banking Group's present requirements.

Liquidity analysis

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 Banking Group adjusts this contractual profile for expected customer behaviour.

Note 40 Liquidity risk (continued)

	The Banking Group						
	2008						
	Overnight $m	Less Than 1 Month $m	Over 1 Month to 3 Months $m	Over 3 Months to 1 Year $m	Over 1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash	110	-	-	-	-	-	110
Due from other financial institutions	-	-	-	-	-	-	-
Other trading securities	1,973	-	-	-	-	-	1,973
Available-for-sale securities	-	-	-	-	35	-	35
Loans	1,876	1,352	3,730	2,040	8,064	92,957	110,019
Due from related entities:							
Non-derivative balances	993	-	30	88	1,698	-	2,809
Derivative financial instruments:							
Held for trading	12	-	-	-	-	-	12
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investment in associate	-	-	-	-	48	-	48
Other financial assets	-	184	-	-	-	-	184
Total undiscounted assets	4,964	1,536	3,760	2,128	9,845	92,957	115,190
Liabilities							
Deposits at fair value	4,163	-	-	-	-	-	4,163
Deposits at amortised cost	9,748	5,078	5,565	5,885	2,419	1	28,696
Debt issues	709	1,698	1,111	5,792	2,358	56	11,724
Other financial liabilities	-	666	-	-	-	-	666
Subordinated debentures	-	-	23	59	300	970	1,352
Due to related entities:							
Non-derivative balances	1,991	-	-	5	114	-	2,110
Derivative financial instruments:							
Held for trading	(159)	-	-	-	-	-	(159)
Held for hedging purposes (net settled)	-	(29)	(27)	115	257	-	316
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Total undiscounted liabilities	16,452	7,413	6,672	11,856	5,448	1,027	48,868
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	6,318	-	-	-	-	-	6,318
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,299	-	-	-	-	-	4,299
Total undiscounted contingent liabilities and commitments	10,617	-	-	-	-	-	10,617

Note 40 Liquidity risk (continued)

	The Banking Group						
	2007						
	Overnight $m	Less Than 1 Month $m	Over 1 Month to 3 Months $m	Over 3 Months to 1 Year $m	Over 1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash	102	-	-	-	-	-	102
Due from other financial institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Other trading securities	2,382	-	-	-	-	-	2,382
Available-for-sale securities	-	-	-	-	-	-	-
Loans	2,016	952	3,378	1,936	7,798	87,783	103,863
Due from related entities:							
Non-derivative balances	1,022	-	-	-	-	-	1,022
Derivative financial instruments:							
Held for trading	-	-	-	-	-	-	-
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Other financial assets	-	175	-	-	-	-	175
Total undiscounted assets	5,522	1,127	3,378	1,936	7,798	87,783	107,544
Liabilities							
Deposits at fair value	3,535	-	-	-	-	-	3,535
Deposits at amortised cost	11,207	5,732	4,397	4,682	416	1	26,435
Debt issues	264	3,392	5,273	766	2,594	-	12,289
Other financial liabilities	-	598	-	-	-	-	598
Subordinated debentures	-	-	24	70	337	970	1,401
Due to related entities:							
Non-derivative balances	1,121	-	337	136	-	-	1,594
Derivative financial instruments:							
Held for trading	134	-	-	-	-	-	134
Held for hedging purposes (net settled)	-	18	32	108	(29)	-	129
Held for hedging purposes (gross settled):							
Cash outflow	-	(10)	-	(38)	(608)	-	(656)
Cash inflow	-	9	-	27	604	-	640
Total undiscounted liabilities	16,261	9,739	10,063	5,751	3,314	971	46,099
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	4,779	-	-	-	-	-	4,779
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,529	-	-	-	-	-	4,529
Total undiscounted contingent liabilities and commitments	9,308	-	-	-	-	-	9,308

Note 40 Liquidity risk (continued)

	The Bank						
	2008						
	Overnight $m	Less Than 1 Month $m	Over 1 Month to 3 Months $m	Over 3 Months to 1 Year $m	Over 1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash	110	-	-	-	-	-	110
Due from other financial institutions	-	-	-	-	-	-	-
Other trading securities	1,973	-	-	-	-	-	1,973
Available-for-sale securities	-	-	-	-	35	-	35
Loans	1,876	1,352	3,660	2,040	8,064	92,957	109,949
Due from related entities:							
Non-derivative balances	946	-	30	88	1,698	-	2,762
Derivative financial instruments:							
Held for trading	12	-	-	-	-	-	12
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investments in related entities	-	-	-	-	-	238	238
Other financial assets	-	176	-	-	-	-	176
Total undiscounted assets	4,917	1,528	3,690	2,128	9,797	93,195	115,255
Liabilities							
Deposits at fair value	4,163	-	-	-	-	-	4,163
Deposits at amortised cost	9,748	5,078	5,565	5,885	2,419	1	28,696
Debt issues	-	26	20	353	1,422	56	1,877
Other financial liabilities	-	558	-	-	-	-	558
Subordinated debentures	-	-	23	59	300	970	1,352
Due to related entities:							
Non-derivative balances	2,821	1,672	1,091	5,443	1,050	-	12,077
Derivative financial instruments:							
Held for trading	(159)	-	-	-	-	-	(159)
Held for hedging purposes (net settled)	-	(29)	(27)	115	257	-	316
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Total undiscounted liabilities	16,573	7,305	6,672	11,855	5,448	1,027	48,880
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	6,318	-	-	-	-	-	6,318
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,299	-	-	-	-	-	4,299
Total undiscounted contingent liabilities and commitments	10,617	-	-	-	-	-	10,617

Note 40 Liquidity risk (continued)

	The Bank						
	2007						
	Overnight $m	Less Than 1 Month $m	Over 1 Month to 3 Months $m	Over 3 Months to 1 Year $m	Over 1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash	102	-	-	-	-	-	102
Due from other financial institutions	-	-	-	-	-	-	-
Other trading securities	2,382	-	-	-	-	-	2,382
Available-for-sale securities	-	-	-	-	-	-	-
Loans	2,016	952	3,307	1,936	7,798	87,783	103,792
Due from related entities:							
Non-derivative balances	1,022	-	-	-	-	-	1,022
Derivative financial instruments:							
Held for trading	-	-	-	-	-	-	-
Held for hedging purposes (net settled)	-	-	-	-	-	-	-
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	-	-	-	-
Cash inflow	-	-	-	-	-	-	-
Investments in related entities	-	-	-	-	-	238	238
Other financial assets	-	170	-	-	-	-	170
Total undiscounted assets	5,522	1,122	3,307	1,936	7,798	88,021	107,706
Liabilities							
Deposits at fair value	3,535	-	-	-	-	-	3,535
Deposits at amortised cost	11,207	5,732	4,397	4,682	416	1	26,435
Debt issues	-	-	18	32	746	-	796
Other financial liabilities	-	432	-	-	-	-	432
Subordinated debentures	-	-	24	70	337	970	1,401
Due to related entities:							
Non-derivative balances	1,515	3,392	5,273	766	2,594	-	13,540
Derivative financial instruments:							
Held for trading	134	-	-	-	-	-	134
Held for hedging purposes (net settled)	-	18	32	108	(29)	-	129
Held for hedging purposes (gross settled):							
Cash outflow	-	(10)	-	(38)	(608)	-	(656)
Cash inflow	-	9	-	27	604	-	640
Total undiscounted liabilities	16,391	9,573	9,744	5,647	4,060	971	46,386
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	4,779	-	-	-	-	-	4,779
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,529	-	-	-	-	-	4,529
Total undiscounted contingent liabilities and commitments	9,308	-	-	-	-	-	9,308

Note 41 Concentration of funding

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Funding consists of				
Deposits at fair value	**4,163**	3,535	**4,163**	3,535
Deposits at amortised cost	**28,064**	25,876	**28,064**	25,876
Debt issues[1]	**11,102**	11,699	**1,582**	635
Perpetual subordinated notes	**970**	970	**970**	970
Due to related entities	**2,249**	1,577	**11,843**	12,772
Total funding	**46,548**	43,657	**46,622**	43,788
Analysis of funding by product				
Saving accounts	**6,902**	6,418	**6,902**	6,418
Certificates of deposits	**4,163**	3,535	**4,163**	3,535
Demand deposits	**4,552**	6,032	**4,552**	6,032
Other deposits and borrowings	**27,712**	25,125	**18,192**	14,061
Perpetual subordinated notes	**970**	970	**970**	970
Subtotal	**44,299**	42,080	**34,779**	31,016
Due to related entities	**2,249**	1,577	**11,843**	12,772
Total funding	**46,548**	43,657	**46,622**	43,788
Analysis of funding by geographical areas[1]				
New Zealand	**33,024**	31,029	**44,729**	42,836
Australia and Asia-Pacific	**2,417**	952	**1,893**	952
United Kingdom and Europe	**5,725**	4,682	**-**	-
North America	**5,382**	6,994	**-**	-
Total funding	**46,548**	43,657	**46,622**	43,788
Analysis of funding by industry and economic sector				
Accommodation, cafes and restaurants	**101**	115	**101**	115
Agriculture, forestry and fishing	**1,325**	1,161	**1,325**	1,161
Construction	**360**	385	**360**	385
Finance and insurance	**17,340**	16,711	**7,820**	5,647
Government administration and defence	**369**	500	**369**	500
Manufacturing	**726**	715	**726**	715
Mining	**21**	26	**21**	26
Property	**3,916**	4,121	**3,916**	4,121
Services	**2,660**	2,712	**2,660**	2,712
Trade	**688**	902	**688**	902
Transport and storage	**409**	374	**409**	374
Utilities	**403**	348	**403**	348
Retail lending	**15,349**	13,749	**15,349**	13,749
Other	**632**	261	**632**	261
Subtotal	**44,299**	42,080	**34,779**	31,016
Due to related entities	**2,249**	1,577	**11,843**	12,772
Total funding	**46,548**	43,657	**46,622**	43,788

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

Note 42 Credit risk

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

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

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

- *Transaction-managed approach*
  For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the 'transaction-managed' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the Banking Group's estimate of their probability of default. Each facility is assigned a Loss Given Default ('**LGD**') taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of 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 ('**PD**'), and LGDs are assigned for each segment based on historic experience and management judgement.

For both approaches, the assignment of CRGs, PDs and LGDs are reviewed annually.

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

The Banking Group monitors its portfolio to guard against the development of risk concentrations. This process ensures that the Banking Group's credit risk remains well diversified throughout the New Zealand economy. The Banking Group has established separate reporting and prudential limits for borrowings that can be accessed by a single customer group. These limits apply to both borrowing equivalents and settlement risk. Separate limits apply to corporate, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the Board and the 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 Ultimate Parent Bank ('**Ultimate Parent Bank Group Risk**') and approved by the Ultimate Parent Bank Group Credit Risk Committee. These policies are administered locally.

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

Credit risk mitigation

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers domiciled in New Zealand only. Customers are required to enter into formal agreements giving the Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Bank's net exposure within each of these two jurisdictions. Cross-border set-offs are not permitted.

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank to net settlements on any day to reduce cash flow exchanges between counterparties. Close-out netting effectively aggregates pre-settlement risk exposure at time of default, thus reducing overall exposure.

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

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

The Banking Group's internal credit risk rating system for transaction-managed customers assigns a CRG to each customer, corresponding to their expected PD. The 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 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 Banking Group's CRGs and the corresponding external rating. Note that only high-level CRGs groupings are shown.

Note 42 Credit risk (continued)

Mapping of the Banking Group risk grades

Non-defaulting customers

Financial Statement Disclosure	The 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+

Non-defaulting customers watchlist

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

Defaulting customers

Financial Statement Disclosure	The Banking Group CRG	Definition
Default	G – H	Default
Loss	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 multiple segments. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('**EAD**').

Use of internal credit risk estimates

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

Economic capital

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

Pricing

The Banking Group prices loans so as to produce an acceptable return on the economic capital allocated to the loan. Returns include interest income and fees after expected losses and other costs.

Provisioning

Loan loss provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction managed portfolios provisions use the risk grading framework and PD, LGD and EADs assigned to each customer as the basis for the calculation.

Credit approval authorities

For transaction-managed facilities, the approval authorities are allocated based on the CRG with lower limits applicable for customers with a higher probability of default.

Program-managed facilities are approved on the basis of application scorecard outcomes and product-based approval authorities.

Risk-adjusted performance measurement

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

Note 42 Credit risk (continued)

Process for managing and recognising credit risk mitigation

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

Risk reduction

The 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

Control mechanisms for the credit risk rating system

The 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 BRMC.

To ensure the risk rating system is applied consistently across the Banking Group, the Banking Group's Portfolio Risk Review team independently review end to end technical and operational aspects of the overall process.

Models materially impacting the risk rating process are reviewed annually in accordance with the Ultimate Parent Bank Group's model risk policy.

Specific credit risk estimates (including PD, LGD and CCF) are overseen and approved by a subcommittee of the Ultimate Parent Bank Group Credit Risk Committee. These estimates are reviewed annually.

Description of internal ratings process, by portfolio

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

The process for assignment and approval of individual PDs and LGDs is that line business unit representatives recommend the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgement decisioning process is employed to evaluate the CRG. All of the above exposure categories also apply to Specialised Lending, which in the Banking Group comprises Property Finance (Income Producing Real Estate). Regulatory risk-weights are applied to the specialised lending portfolio.

Types of exposure included in the portfolio

Corporate, sovereign and banking exposures include:

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

Definitions, methods and data for estimation and validation of Probability of Default, Loss Given Default and Exposure at Default

(i) Probability of Default

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

(ii) Loss Given Default

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

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

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

(iii) Exposure at Default and Credit Conversion Factor

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default. The proportion of undrawn commitments ultimately is termed the Credit Conversion Factor ('**CCF**'). EAD thus consists of initial outstanding balances, plus the CCF multiplied by undrawn commitments. For transaction managed exposures CCF's are all 100 percent.

Note 42 Credit risk (continued)

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

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 pool's characteristics. The PD estimate for each pool is based on internal data.

(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 and Credit Conversion Factor

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 utilised as customers approach default.

EAD for retail asset classes is calculated by analysing 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 to create a customer segment balance at default.

The sum of the outstanding balance is then compared against total segment limit in order to determine a segment level CCF. This CCF is applied in the EAD calculation to reflect the customers expected utilisation of any undrawn limit. EAD = outstanding + (CCF x outstanding).

Maximum exposure to credit risk

The Banking Group's maximum credit exposure to credit risk as at 30 September 2008 was $64,845 million (30 September 2007: $57,163 million).

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

The Banking Group's total credit risk for the year ended 30 September 2008 was as follows:

	Risk-weighted Exposure Unaudited $m	Minimum Capital Requirement Unaudited $m
Internal risk base		
Residential mortgages	**10,642**	**852**
Other retail	**2,325**	**186**
Small business	**894**	**71**
Corporate	**2,452**	**197**
Business lending	**4,378**	**351**
Sovereign	**67**	**5**
Bank	**215**	**17**
Equity	**114**	**9**
Specialised lending: Project and property finance	**5,123**	**410**
Standardised	**746**	**59**
Total	**26,956**	**2,157**

Note 42 Credit risk (continued)

Mapping of Basel categories to the Banking Group portfolios

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

Note 43 Credit risk exposures by asset class

Banking Group – Residential mortgages (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	**2,659**	-	**22**	**7**	**197**	**16**
0.25 to 1.0	**9,659**	**1**	**22**	**18**	**1,772**	**142**
1.0 to 2.5	**16,260**	**1**	**22**	**34**	**5,473**	**438**
2.5 to 10.0	**2,054**	**4**	**22**	**69**	**1,408**	**113**
10.0 to 99.99	**431**	**22**	**22**	**128**	**552**	**44**
Default	**575**	**100**	**22**	**216**	**1,240**	**99**
Total	**31,638**	**3**	**22**	**34**	**10,642**	**852**

Banking Group – Other retail (Credit cards, personal loans, personal overdrafts) (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	**948**	-	**63**	**41**	**386**	**31**
1.0 to 2.5	**715**	**2**	**67**	**87**	**622**	**50**
2.5 to 10.0	**689**	**5**	**67**	**104**	**719**	**57**
10.0 to 99.99	**214**	**22**	**67**	**151**	**324**	**26**
Default	**54**	**100**	**66**	**511**	**274**	**22**
Total	**2,620**	**6**	**66**	**89**	**2,325**	**186**

Note 43 Credit risk exposures by asset class (continued)

Banking Group – Small business (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	384	1	17	14	53	4
1.0 to 2.5	1,465	2	17	24	356	28
2.5 to 10.0	662	5	20	33	216	17
10.0 to 99.99	86	28	21	54	47	4
Default	104	100	19	214	222	18
Total	2,701	7	18	33	894	71

Banking Group – Corporate (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
AAA	-	-	-	-	-	-
AA	12	-	60	13	2	-
A	226	-	33	13	29	2
BBB	740	-	36	36	266	21
BB	1,340	2	46	101	1,357	110
B	27	3	46	155	41	3
Other	248	18	58	303	753	61
Default	20	100	30	21	4	-
Total	2,613	3	43	94	2,452	197

Banking Group – Business lending (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
AAA	-	-	-	-	-	-
AA	6	-	60	20	1	-
A	127	-	55	28	35	3
BBB	982	-	31	32	319	26
BB	5,144	1	31	62	3,168	253
B	129	3	32	76	97	8
Other	455	14	40	164	745	60
Default	8	100	29	159	13	1
Total	6,851	2	32	64	4,378	351

Banking Group – Sovereign (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
AAA	7	-	60	8	1	-
AA	5	-	60	12	1	-
A	274	-	28	12	32	3
BBB	94	-	23	33	31	2
BB	1	2	33	115	2	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	381	-	28	18	67	5

Note 43 Credit risk exposures by asset class (continued)

Bank (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
AAA	-	-	-	-	-	-
AA	2,006	-	60	11	215	17
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	2,006	-	60	11	215	17

	Undrawn Commitments and Other Off-balance Sheet Amounts (unaudited)		Market Related Contracts (unaudited)	
	Value	EAD	Value	EAD
Residential mortgages	5,176	507	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,704	1,001	-	-
Small business	1,021	319	-	-
Corporate	708	708	-	-
Business lending	1,082	1,082	-	-
Sovereign	178	178	-	-
Bank	-	-	-	-
	10,869	3,795	-	-

Equity (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
Equity	38	-	-	300	114	9

Note 44 Credit risk exposures for specialised lending

The Banking Group – Specialised lending: Project and property finance as at 30 September 2008 (unaudited)

PD Band	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets $m (scaled)	Required Regulatory Capital $m
Strong	739	-	-	70	517	41
Good	2,012	-	-	90	1,810	145
Satisfactory	1,464	-	-	115	1,684	135
Weak	445	-	-	250	1,112	89
Default	46	-	-	-	-	-
Total	4,706			109	5,123	410
Of which is off-balance sheet	36					
Committed undrawn	577					

Note 45 Credit risk exposures subject to the standardised approach

Credit risk exposures subject to the standardised approach as at 30 September 2008

Calculation of on-balance sheet exposures (unaudited)

	Total Exposure After Credit Risk Mitigation $m	Average Risk Weight %	Risk-weighted Exposure $m	Minimum Capital Requirement $m
Property, plant and equipment and other assets	260	100	260	21
Related parties	1,095	32	353	28
Total on-balance sheet exposures	**1,355**		**613**	**49**

Calculation of off-balance sheet exposures (unaudited)

	Total Principal Amount $m	Credit Equivalent Amount $m	Average Risk Weight %	Risk-weighted Exposure $m	Minimum Capital Requirement $m
Market related contracts subject to the standardised approach					
Foreign exchange contracts	9,271	321	20	64	5
Interest rate contacts	49,784	119	22	26	2
Total market related contracts subject to the standardised approach	**59,055**	**440**		**90**	**7**
Standardised subtotal				**703**	
After adjustment for scalar				**746**	

Note 46 Additional mortgage information for credit risk

The Banking Group – Residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2008 (unaudited)

LVR range	0-60%	60-70%	70-80%	80-90%	Over 90%
Value of exposures	12,098	3,952	7,671	5,234	2,683

Note 47 Credit exposures to connected persons and non-bank connected persons

The limits on aggregate credit exposures to all connected persons in condition 4 of the Bank's conditions of registration have not been complied with during the year ended 30 September 2008. Recent analysis has also shown that these limits have not been complied with at various times since the Bank's registration on 1 November 2006.

The Bank has worked to resolve this compliance issue. To address the issue, the Bank has:

- raised an additional amount of Tier One Capital of $750 million from the Ultimate Parent Bank Group; and
- put in place additional procedures to manage credit exposures to connected persons to ensure compliance with condition 4 of its conditions of registration.

The Bank has also commissioned an independent third party to provide a full review of the Bank's systems to monitor and control risks in respect of credit exposures to connected persons. The Bank will consider carefully the findings of this review, with a view to enhancing these systems and ensuring that the systems in place are appropriate.

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

The Reserve Bank of New Zealand defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits, net of specific provisions and exclude advances to connected persons of a capital nature. Peak end-of-day aggregate 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 partially on a bilateral net basis, and partially on a gross basis. Netting has occurred in respect of certain transactions which are the subject of bilateral netting agreements disclosed in the Bank's most recent Supplemental Disclosure Statement. On this basis, there is a limit of 125% of the Banking Group Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

Note 47 Credit exposures to connected persons and non-bank connected persons (continued)

	The Banking Group			
	As at 30 September 2008 $m	**Peak End-of-day for the Three Months Ended 30 September 2008 $m**	As at 30 September 2007 (Restated) $m	Peak End-of-day for the Three Months Ended 30 September 2007 (Restated) $m
Credit exposures to connected persons (on gross basis, before netting)	**2,680**	**4,035**	1,582	3,112
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on gross basis, before netting)	**89.8%**	**135.1%**	76.9%	151.3%
Credit exposures to connected persons (netted amount)	**1,567**	**1,605**	-	-
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (netted amount)	**52.5%**	**53.8%**	0.0%	0.0%
Credit exposures to connected persons (on partial bilateral net basis)	**1,113**	**2,430**	1,582	3,112
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on partial bilateral net basis)	**37.3%**	**81.4%**	76.9%	151.3%
Credit exposures to non-bank connected persons	**-**	**-**	-	-
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%**	0.0%	0.0%

As at 30 September 2008, the rating-contingent limit applicable to the Bank, under condition 4 of its conditions of registration, 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 30 September 2008.

As shown in the table above, the peak end-of-day aggregate credit exposure to connected persons expressed as a percentage of Tier One Capital of the Banking Group for the three month periods ended 30 September 2008 and 30 September 2007, of 81.4% and 151.3% respectively, exceeded the 75% rating-contingent limit. The aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group as at 30 September 2007, of 76.9%, also exceeded this 75% limit.

The following table provides restated figures for credit exposures to connected persons, for the three-month periods ended 31 December 2007 and 31 March 2008. The comparative period disclosure in the table above, for the three months ended 30 September 2007, has also been restated. The previous calculations for these three-month periods (disclosed in the Bank's General Short Form Disclosure Statement for the three months ended 31 December 2007 and the Bank's General Disclosure Statements for the six months ended 31 March 2008 and the year ended 30 September 2007) incorrectly reported credit exposures to connected persons, as certain amounts were being netted in accordance with generally accepted accounting practice which were not permitted to be netted under the Reserve Bank of New Zealand document 'Connected exposures policy' (BS8). The rating-contingent limit applicable to the Bank for these three-month periods was 75% of Tier One Capital. The restated figures show that the limits on aggregate credit exposures to all connected persons in the Bank's conditions of registration have not been complied with during the three month periods ended 30 September 2007, 31 December 2007 and 31 March 2008.

Restatement of credit exposures to connected persons in prior periods

	The Banking Group			
	As at 31 March 2008 Unaudited $m	Peak End-of-day for the Three Months Ended 31 March 2008 Unaudited $m	As at 31 December 2007 Unaudited $m	Peak End-of-day for the Three Months Ended 31 December 2007 Unaudited $m
Credit exposures to connected persons (on gross basis, before netting)	2,703	4,014	1,970	2,636
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on gross basis, before netting)	125.2%	185.8%	107.1%	143.4%
Credit exposures to connected persons (netted amount)	166	-	-	-
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (netted amount)	7.7%	0.0%	0.0%	0.0%
Credit exposures to connected persons (on partial bilateral net basis)	2,537	4,014	1,970	2,636
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on partial bilateral net basis)	117.5%	185.8%	107.1%	143.4%

Note 47 Credit exposures to connected persons and non-bank connected persons (continued)

In addition, the limits on aggregate credit exposures to connected persons in condition 4 of the Bank's conditions of registration were not complied with during the three months ended 30 June 2008. The following table provides figures for credit exposures to connected persons for the three months ended 30 June 2008.

	The Banking Group	
	As at 30 June 2008 Unaudited $m	Peak End-of-day for the Three Months Ended 30 June 2008 Unaudited $m
Credit exposures to connected persons (on gross basis, before netting)	2,757	3,197
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on gross basis, before netting)	139.5%	161.8%
Credit exposures to connected persons (netted amount)	197	167
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (netted amount)	10.0%	8.5%
Credit exposures to connected persons (on partial bilateral net basis)	2,560	3,030
Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on partial bilateral net basis)	129.6%	153.4%

As a result of the Banking Group's ongoing review of credit exposures to connected persons, the figures in the table above, and the prior period restatements for the three month periods ended 31 March 2008 and 31 December 2007 above, have been updated from those disclosed in the Bank's General Short Form Disclosure Statement for the nine months ended 30 June 2008. The changes from those previously published figures arise from the correct application of the methodology for calculating the credit equivalent amount of derivatives held by the Bank with the NZ Branch, as specified in the Reserve Bank of New Zealand documents 'Connected exposures policy' (BS8) and 'Capital adequacy framework (standardised approach)' (BS2A), which had previously been applied incorrectly.

The non-compliance with the limits on aggregate credit exposures to connected persons shown in the tables above has been caused by the Banking Group's credit exposure to the NZ Branch in relation to (a) foreign currency deposits that the Bank has with the NZ Branch, representing the proceeds of foreign currency deposits placed with the Bank by its customers; and (b) various derivative balances held by the Bank with the NZ Branch.

For the three month periods ended 31 March 2008, 30 June 2008 and 30 September 2008, the non-compliance was also partially caused by a $1,300 million deposit that the Bank made with the NZ Branch in the three-month period ended 31 March 2008, relating to a funding transaction entered into by the Bank and the Ultimate Parent Bank. There is a netting agreement between the Bank and the Ultimate Parent Bank relating to the $1,300 million deposit. The Bank has obtained an opinion from an independent third party expert in relation to this netting agreement, and the Reserve Bank of New Zealand has accepted the opinion as validation of the robustness of the netting agreement with effect from 24 July 2008. (The Bank's most recent Supplemental Disclosure Statement contains a copy of this opinion.) This allows credit exposures to the NZ Branch in relation to the $1,300 million deposit to be calculated on a bilateral net basis from 24 July 2008. Accordingly, with effect from 24 July 2008, on a bilateral net basis, the credit exposure to the NZ Branch in relation to the $1,300 million deposit was nil.

The limits on aggregate credit exposures to non-bank connected persons in the Bank's conditions of registration have been complied with at all times over the year ended 30 September 2008.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with the connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2008, the Banking Group had no aggregate contingent credit exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons) (30 September 2007: nil). There were no allowances for impairment losses on individual financial assets against credit exposures to connected persons as at 30 September 2008 (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 30 September 2008 (30 September 2007: nil).

Note 48 Concentration of credit exposures

On-balance sheet credit exposures

	The Banking Group		The Bank	
	2008 $m	2007 $m	**2008 $m**	2007 $m
On-balance sheet credit exposures consists of				
Cash	**110**	102	**110**	102
Other trading securities	**1,973**	2,382	**1,973**	2,382
Loans	**46,795**	42,559	**46,617**	42,357
Due from related entities	**2,364**	1,022	**2,317**	1,022
Other assets	**183**	174	**176**	169
Total on-balance sheet credit exposures	**51,425**	46,239	**51,193**	46,032
Analysis of on-balance sheet credit exposures by geographical areas				
Within New Zealand	**51,367**	46,109	**51,135**	45,902
Australia and Asia-Pacific	**58**	130	**58**	130
Total on-balance sheet credit exposures	**51,425**	46,239	**51,193**	46,032
Analysis of on-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**198**	213	**198**	213
Agriculture, forestry and fishing	**4,221**	3,362	**4,221**	3,362
Construction	**308**	320	**308**	320
Finance and insurance	**2,847**	3,191	**2,847**	3,192
Government administration and defence	**275**	270	**275**	270
Manufacturing	**811**	784	**811**	784
Mining	**74**	80	**74**	80
Property	**5,000**	4,521	**5,000**	4,520
Services	**838**	640	**838**	641
Trade	**1,083**	992	**1,083**	992
Transport and storage	**520**	413	**520**	413
Utilities	**205**	176	**205**	176
Retail lending	**32,958**	30,434	**32,774**	30,227
Subtotal	**49,338**	45,396	**49,154**	45,190
Provisions for impairment on loans	**(300)**	(200)	**(296)**	(197)
Due from related entities	**2,364**	1,022	**2,317**	1,022
Other assets	**23**	21	**18**	17
Total on-balance sheet credit exposures	**51,425**	46,239	**51,193**	46,032
Off-balance sheet credit and derivative exposures by credit equivalent consists of				
Contingent liabilities and commitments	**3,688**	2,915	**3,688**	2,915
Derivatives	**440**	634	**440**	634
Total off-balance sheet credit and derivative exposures by credit equivalent	**4,128**	3,549	**4,128**	3,549
Analysis of off-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**20**	19	**20**	19
Agriculture, forestry and fishing	**138**	62	**138**	62
Construction	**193**	174	**193**	174
Finance and insurance	**657**	907	**657**	907
Government administration and defence	**77**	54	**77**	54
Manufacturing	**167**	133	**167**	133
Mining	**6**	4	**6**	4
Property services and business services	**2,596**	1,970	**2,596**	1,970
Trade	**232**	203	**232**	203
Transport and storage	**33**	15	**33**	15
Utilities	**7**	6	**7**	6
Retail lending	**2**	2	**2**	2
Total off-balance sheet credit and derivative exposures by credit equivalent	**4,128**	3,549	**4,128**	3,549

Credit exposure is determined with reference to actual credit exposures.

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

Note 48 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

- as at 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 Banking Group has an aggregate credit exposure that equals or exceeds 10% of the 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 aggregate credit exposure has been calculated by determining the maximum end-of-day aggregate 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 to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of individually assessed provisions.

Note 49 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. As the Bank's financial markets business is conducted by the NZ Branch, the market risks faced by the Bank are of a non-traded nature (banking book) only.

The treatment of material market risk that the Bank is exposed to is described below.

Management of structural interest rate risk

The Bank's structural interest rate risk arises from lending and deposit-taking activity in the normal course of business and through the investment of capital and other non-interest bearing liabilities. This structural interest rate risk is transferred to the NZ Branch, which then manages the sensitivity of the Banking Group book's net interest income to changes in wholesale market interest rates. New Zealand Treasury's risk management objective is to ensure the reasonable stability of net interest income over time. These activities are performed under the direction of the Ultimate Parent Bank Group, specifically the Treasury Unit of the Ultimate Parent Bank Group with oversight provided by the Ultimate Parent Bank Group's Market Risk Management unit, MARCO, the BBRC and the NZRC.

Once transferred to the Ultimate Parent Bank Group, 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 considers all on and off-balance sheet accrual accounted assets and liabilities in New Zealand.

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:

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

The net interest income simulation and limit framework is reviewed and approved annually by the BRMC, the BBRC and the NZBRC. This seeks to ensure that key model inputs and risk parameters remain relevant and that net interest income at risk to interest rate movements and limits governing these activities remain consistent with the desired risk and reward criterion.

Note 49 Market risk (continued)

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B).

The end-of-quarter aggregate interest rate exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (basis point value) during the quarter, comparing this to the quarter end basis point value and calculating the peak risk by using the ratio of the peak to the quarter end. This method is approximate only as the two methods differ in their treatment of capital and non-interest rate sensitive products.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B).

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge as a percentage of the Banking Group's equity is the peak end-of-day aggregate capital charge for that category of market risk divided by the Banking Group's equity as at 30 September 2008.

Market Risk	**Implied Risk-weighted Exposure $m**	**Aggregate Capital Charge $m**	**Aggregate Capital Charge As a Percentage of the Banking Group's Equity %**
Interest rate risk – as at 30 September 2008	**875**	**70**	**1.41**
Interest rate risk – peak end-of-day for the three months ended 30 September 2008	**2,050**	**164**	**3.32**
Foreign currency risk – as at 30 September 2008	**38**	**3**	**0.06**
Foreign currency risk – peak end-of-day for the three months ended 30 September 2008	**38**	**3**	**0.06**
Equity risk – as at 30 September 2008	**38**	**3**	**0.06**
Equity risk – peak end-of-day for the three months ended 30 September 2008	**38**	**3**	**0.06**

Market Risk	Implied Risk-weighted Exposure $m	Aggregate Capital Charge $m	Aggregate Capital Charge As a Percentage of the Banking Group's Equity %
Interest rate risk – as at 30 September 2007	600	48	1.80
Interest rate risk – peak end-of-day for the three months ended 30 September 2007	2,988	239	8.90
Foreign currency risk – as at 30 September 2007	-	-	-
Foreign currency risk – peak end-of-day for the three months ended 30 September 2007	-	-	-
Equity risk – as at 30 September 2007	-	-	-
Equity risk – peak end-of-day for the three months ended 30 September 2007	-	-	-

Value at risk

The Banking Group applies a 'value at risk' methodology ('**VaR**') to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Banking Group, trading and non-trading separately.

VaR is an estimate of the potential loss in value, to a 99% confidence level assuming positions were held unchanged for one day. The Banking Group uses a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. As VaR constitutes an integral part of the Group's market risk control regime, VaR limits are established by the Board annually for all trading and non-trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by both the New Zealand Market Risk Management unit and Group Treasury.

The following table provides a summary of VaR by risk type for the Banking Group and the Bank's non-trading activities, as at the end of the following financial years:

	2008 $m	2007 $m
Interest rate risk	**3.54**	1.19

Note 50 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 assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with the Banking Group's policy guidelines.

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2008. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the Banking Group's interest rate risk management framework is provided in Note 49.

	The 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	-	-	-	-	-	-	-	-	**110**	**110**	-
Due from other financial institutions	-	-	-	-	-	-	-	-	-	-	-
Other trading securities	**386**	**859**	**728**	-	-	-	-	-	-	**1,973**	**7.9**
Available-for-sale securities	-	-	-	-	-	-	-	-	**35**	**35**	-
Loans	**17,127**	**4,194**	**9,654**	**8,290**	**4,116**	**2,721**	**956**	**37**	**(300)**	**46,795**	**9.5**
Due from related entities	**2,314**	-	-	-	-	-	-	-	**50**	**2,364**	**7.5**
Investment in associate	-	-	-	-	-	-	-	-	**48**	**48**	-
Other financial assets	-	-	-	-	-	-	-	-	**183**	**183**	-
Total financial assets	**19,827**	**5,053**	**10,382**	**8,290**	**4,116**	**2,721**	**956**	**37**	**126**	**51,508**	
Non-financial assets										**777**	
Total assets										**52,285**	
Financial liabilities											
Deposits at fair value	**222**	**2,500**	**1,424**	**14**	**3**	-	-	-	-	**4,163**	**7.9**
Deposits at amortised cost	**15,640**	**5,199**	**4,834**	**248**	**69**	**24**	**19**	**1**	**2,030**	**28,064**	**6.6**
Debt issues	**7,953**	**1,035**	**853**	**539**	**362**	**310**	-	**50**	-	**11,102**	**4.4**
Other financial liabilities	-	-	-	-	-	-	-	-	**666**	**666**	-
Perpetual subordinated notes	-	**970**	-	-	-	-	-	-	-	**970**	**7.5**
Due to related entities	**1,873**	-	-	**61**	-	-	-	-	**315**	**2,249**	**7.5**
Total financial liabilities	**25,688**	**9,704**	**7,111**	**862**	**434**	**334**	**19**	**51**	**3,011**	**47,214**	
Non-financial liabilities										**136**	
Total liabilities										**47,350**	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	**5,863**	**10,383**	**(3,458)**	**(6,599)**	**(3,112)**	**(2,174)**	**(905)**	**2**	-	-	

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

Note 50 Interest rate risk (continued)

	The 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	-	-	-	-	-	-	-	-	102	102	-
Due from other financial institutions	-	-	-	-	-	-	-	-	-	-	-
Other trading securities	70	1,572	740	-	-	-	-	-	-	2,382	8.7
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-
Loans	14,098	2,899	7,022	9,785	4,221	2,013	2,691	30	(200)	42,559	9.3
Due from related entities	947	-	-	-	-	-	-	-	75	1,022	8.3
Other financial assets	-	-	-	-	-	-	-	-	174	174	-
Total financial assets	15,115	4,471	7,762	9,785	4,221	2,013	2,691	30	151	46,239	
Non-financial assets										778	
Total assets										47,017	
Financial liabilities											
Deposits at fair value	478	1,146	1,908	3	-	-	-	-	-	3,535	8.7
Deposits at amortised cost	14,701	4,259	4,403	241	99	11	21	1	2,140	25,876	6.5
Debt issues	3,582	5,129	615	1,186	877	-	310	-	-	11,699	4.8
Other financial liabilities	-	-	-	-	-	-	-	-	594	594	-
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970	9.7
Due to related entities	1,577	-	-	-	-	-	-	-	-	1,577	8.3
Total financial liabilities	20,338	11,504	6,926	1,430	976	11	331	1	2,734	44,251	
Non-financial liabilities										85	
Total liabilities										44,336	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	5,945	9,250	(937)	(7,592)	(2,937)	(1,581)	(2,148)	-	-	-	

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

Note 50 Interest rate risk (continued)

	The Bank										
	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	-	-	-	-	-	-	-	-	110	110	-
Other trading securities	386	859	728	-	-	-	-	-	-	1,973	7.9
Available-for-sale securities	-	-	-	-	-	-	-	-	35	35	-
Loans	16,187	4,201	10,015	8,543	4,182	2,767	966	53	(297)	46,617	9.5
Due from related entities	2,258	-	-	-	-	-	-	-	59	2,317	7.5
Investment in related entities	-	-	-	-	-	-	-	-	238	238	-
Other financial assets	-	-	-	-	-	-	-	-	176	176	-
Total financial assets	18,831	5,060	10,743	8,543	4,182	2,767	966	53	321	51,466	
Non-financial assets										701	
Total assets										52,167	
Financial liabilities											
Deposits at fair value	222	2,500	1,424	14	3	-	-	-	-	4,163	7.9
Deposits at amortised cost	15,640	5,199	4,834	248	69	24	19	1	2,030	28,064	6.6
Debt issues	860	-	-	-	362	310	-	50	-	1,582	8.4
Other financial liabilities	-	-	-	-	-	-	-	-	558	558	-
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970	7.5
Due to related entities	11,540	-	-	-	-	-	-	-	303	11,843	7.5
Total financial liabilities	28,262	8,669	6,258	262	434	334	19	51	2,891	47,180	
Non-financial liabilities										135	
Total liabilities										47,315	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	5,863	10,383	(3,458)	(6,599)	(3,112)	(2,174)	(905)	2	-	-	

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

Note 50 Interest rate risk (continued)

	The Bank										
	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	-	-	-	-	-	-	-	-	102	102	-
Other trading securities	70	1,572	740	-	-	-	-	-	-	2,382	8.7
Loans	12,659	3,039	7,491	10,120	4,513	2,013	2,691	28	(197)	42,357	9.2
Due from related entities	947	-	-	-	-	-	-	-	75	1,022	8.3
Investment in related entities	-	-	-	-	-	-	-	-	238	238	-
Other financial assets	-	-	-	-	-	-	-	-	169	169	-
Total financial assets	13,676	4,611	8,231	10,120	4,513	2,013	2,691	28	387	46,270	
Non-financial assets										696	
Total assets										46,966	
Financial liabilities											
Deposits at fair value	478	1,146	1,908	3	-	-	-	-	-	3,535	8.7
Deposits at amortised cost	14,701	4,259	4,403	241	99	11	21	1	2,140	25,876	6.5
Debt issues	-	-	-	50	275	-	310	-	-	635	7.3
Other financial liabilities	-	-	-	-	-	-	-	-	429	429	-
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970	9.7
Due to related entities	12,772	-	-	-	-	-	-	-	-	12,772	8.3
Total financial liabilities	27,951	6,375	6,311	294	374	11	331	1	2,569	44,217	
Non-financial liabilities										88	
Total liabilities										44,305	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	5,945	9,250	(937)	(7,592)	(2,937)	(1,581)	(2,148)	-	-	-	

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

Note 51 Foreign currency risk

With the exception of the available-for-sale investment in Visa shares, neither the Banking Group nor the Bank carries material foreign currency risk due to the risk being hedged with the Ultimate Parent Bank.

Note 52 Operational risk

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

The Bank uses the Ultimate Parent Bank Group Operational Risk Management Framework as a tool to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management and Reporting & Monitoring.

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

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

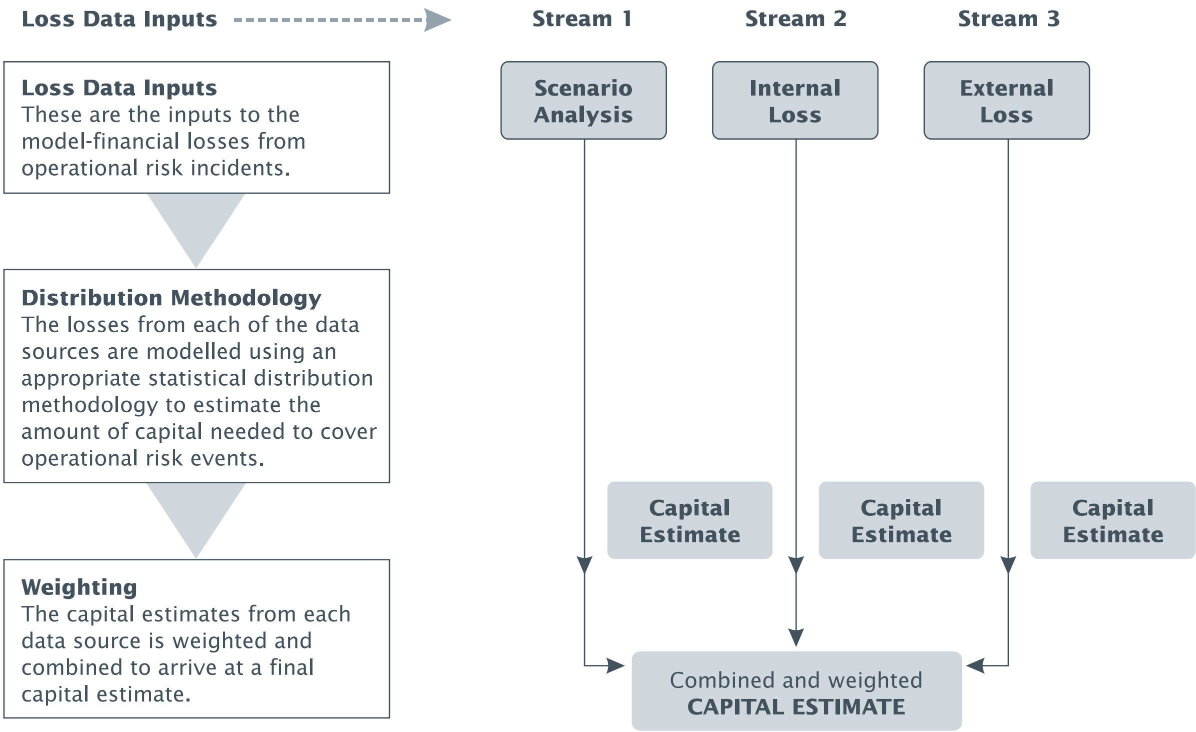
The Banking Group undertakes three streams of analysis. Each stream utilises different data sets to generate an estimate of potential financial loss. The three capital estimates are then weighted and combined to produce an estimate of capital. Three streams are used to provide a more comprehensive assessment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

- providing losses previously experienced by the Banking Group;
- utilising loss history from peers with similar business models and hence give an indication of what future losses are possible; and
- covering both smaller/frequent losses and larger/infrequent losses via scenario analysis.

Note 52 Operational risk (continued)

Calculating operational risk capital

The diagram below provides an overview of the process for calculating capital:



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

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

The Banking Group's operational risk capital requirement for the year ended 30 September 2008

	Implied Risk-weighted Exposure Unaudited $m	Total Operational Risk Capital Requirement Unaudited $m
Approach implemented		
Advanced measurement approach		
Operational risk	**2,135**	**171**

Reviews in respect of risk management systems

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

The Ultimate Parent Bank Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit decision-making relating to products provided by the Bank. Group Assurance NZ also periodically reviews the Bank's Operational Risk Framework.

The reviews discussed in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank.

Note 53 Subsequent events

The Bank 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 of New Zealand. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions remain difficult. It takes advantage of the Reserve Bank of New Zealand'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 of New Zealand's repurchase agreements.

On 22 October 2008, the Bank made a $220 million bonus issue to Westpac New Zealand Group Limited comprising 220,000,000 fully paid ordinary shares, which are treated as having been issued for a consideration of $1 per share. The shares were issued fully paid by capitalisation of $220 million of the Bank's retained earnings.

Note 54 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 3, 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 have been applied in the preparation of this disclosure.

Note 54 Vested assets and liabilities (continued)

	The Banking Group As at 31 October 2006 $m	Vesting Assets and Liabilities As at 1 November 2006 $m	Related Entities Acquired As at 1 November 2006 $m	Total Banking Group As at 1 November 2006 $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	-	-	-	-
Due to related entities	-	-	-	-
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 54 Vested assets and liabilities (continued)

Consideration paid for the acquisition of subsidiary entities of WNZL 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

Note 54 Vested assets and liabilities (continued)

	The Bank As at 31 October 2006 $m	Vesting Assets and Liabilities As at 1 November 2006 $m	Total Bank As at 1 November 2006 $m
Assets			
Cash	-	123	123
Due from other financial institutions	-	-	-
Derivative financial instruments	-	3	3
Other trading securities	-	-	-
Other financial assets designated at fair value	-	-	-
Available-for-sale securities	-	-	-
Loans	-	36,719	36,719
Due from related entities	3,416	2	3,418
Goodwill and other intangible assets	-	606	606
Property, plant and equipment	-	23	23
Income tax receivable	-	-	-
Deferred tax assets	-	72	72
Other assets	-	114	114
Total assets	3,416	37,662	41,078
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	-	-	-
Due to related entities	-	-	-
Provisions	-	58	58
Other liabilities	-	382	382
Total liabilities excluding due to related entities	7	27,961	27,968
Perpetual subordinated notes	970	-	970
Other amounts due to related entities	9	9,701	9,710
Total liabilities	986	37,662	38,648
Net assets	2,430	-	2,430
Represented by:			
Equity			
Ordinary share capital	2,415	-	2,415
Reserves	-	-	-
Minority interests	-	-	-
Retained profits	15	-	15
Total equity	2,430	-	2,430

Auditors’ report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand
DX CP24073
www.pwc.com/nz
Telephone +64 9 355 8000
Facsimile +64 9 355 8001

Auditors’ Report

To the shareholders of Westpac New Zealand Limited

We have examined pages 12 to 87 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 9 and Clause 17 of Schedule 3 of the Order. The financial statements provide information about the past financial performance and cash flows of Westpac New Zealand Limited (the “Bank”) and its subsidiaries (the “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 18 to 27 and the requirements of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the “Order”).

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

Directors’ Responsibilities

The Directors of Westpac New Zealand Limited are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which give a true and fair view of the financial position of the Bank and the Banking Group as at 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 3 to 9 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 22, Schedules 4 to 9, and Clause 17 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in Notes 29, 37, 42, 43, 44, 45, 46, 47, and 52), 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 (excluding the capital adequacy information disclosed in Notes 37, 42, 43, 44, 45, 46, and 52), 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 and 6 to 9 of the Order, and for reporting our findings to you.

In respect of the supplementary information relating to capital adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52, we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

(i) prepared in accordance with the Bank’s conditions of registration;

(ii) prepared in accordance with the Bank’s internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and

(iii) disclosed in accordance with Schedule 5B

and for reporting our findings to you.

PRICEWATERHOUSECOOPERS

Auditors' Report

Westpac New Zealand Limited

Basis of Opinions

An audit of the financial statements includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52). 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 Bank and the Banking Group, consistently applied and adequately disclosed.

We conducted our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52) 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.

Our examination of the supplementary information relating to capital adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52 has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to Capital Adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52 and, accordingly, we do not express an audit opinion on that supplementary information.

We carry out other assignments on behalf of the Bank and the Banking Group in the area of taxation and other assurance advice. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation. We have no other interests in the Bank or the 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 12 to 87 (excluding the supplementary information disclosed in Notes 29, 37, 42, 43, 44, 45, 46, 47 and 52):

   (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 Bank and the 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 Notes 29 and 47 prescribed by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order fairly states the matters to which it relates in accordance with those Schedules.

PRICEWATERHOUSECOOPERS

Auditors' Report
Westpac New Zealand Limited

Unqualified Review Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 37, 42, 43, 44, 45, 46, and 52, as required by Schedule 5B of the Order, is not in all material respects:

(i) prepared in accordance with the Bank's Conditions of Registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 5B of the Order.

Our work was completed on 2 December 2008 and our unqualified opinions are expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants | Auckland

Westpac New Zealand Limited