



# Westpac Banking Corporation's general disclosure statement

for the six months ended 31 March 2005

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## General information and definitions

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

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

- Westpac Banking Corporation Group (otherwise referred to as the “**Overseas Banking Group**”) – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the “**Overseas Bank**”) – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the “**NZ Banking Group**”) – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group’s New Zealand business. The NZ Banking Group includes the following subsidiary entities:
  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited and its subsidiary companies - Holding company
  - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
  - TBNZ Limited and its subsidiary companies - Holding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - The Warehouse Financial Services Limited - Financial services company
  - Westpac Capital - NZ - Limited and its subsidiary companies - Holding company
  - Westpac Finance Limited - Finance company
  - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - WestpacTrust Securities NZ Limited and its subsidiary company - Funding company
  - BLE Capital (NZ) Limited - Finance company
  - Hastings Forestry Investments Limited - Non-trading company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the “**NZ Bank**”) – refers to New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2004 and the six months ended 31 March 2005, respectively.

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

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## General matters

### REGISTERED BANK

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

### OVERSEAS BANK

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

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

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## Registered bank: directorate and advisers

### DIRECTORS

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

**Name:** Leonard Andrew Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM

**Non-Executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Chairman

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of each of Huysmans Pty Limited and Trouin Pty Limited; President of the Walter and Eliza Hall Institute of Medical Research and Trustee of the Westpac Foundation.

**Name:** David Raymond Morgan, BEc, MSc, PhD

**Non-Executive:** No

**Country of Residence:** Australia

**Primary Occupation:** Chief Executive Officer

**Board Audit Committee Member:** No

**Independent Director:** No

**External Directorships:** Nil.

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

**Non-Executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of each of Seven Network Limited and Opera Australia.

**Name:** David Alexander Crawford, BCom, LLB, FCA, FCPA

**Non-Executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Chairman of each of Lend Lease Corporation Limited, National Foods Limited and the Australian Ballet; Director of each of BHP Billiton Limited and Foster's Group Limited, and is Treasurer of the Melbourne Cricket Club.

**Name:** Edward Alfred Evans, AC, BEcon

**Non-Executive:** Yes

**Country of Residence:** Australia

**Primary Occupation:** Director

**Board Audit Committee Member:** Yes

**Independent Director:** Yes

**External Directorships:** Director of IBT Education Limited.

**Name:** Carolyn Judith Hewson, BEc (Hons.), MA (Econ.)  
**Non-Executive:** Yes  
**Country of Residence:** Australia  
**Primary Occupation:** Director  
**Board Audit Committee Member:** No  
**Independent Director:** Yes

**External Directorships:** Director of each of the Australian Gaslight Company and CSR Limited; Board and advisory roles with the Royal Humane Society, YWCA NSW, the Australian Charities Fund and The Neurosurgical Research Foundation.

**Name:** Helen Ann Lynch, AM  
**Non-Executive:** Yes  
**Country of Residence:** Australia  
**Primary Occupation:** Director  
**Board Audit Committee Member:** Yes  
**Independent Director:** Yes

**External Directorships:** Chairman of the Westpac Staff Superannuation Plan Pty Limited; Deputy Chairman of Pacific Brands Limited; Director of each of Southcorp Limited and Institute of Molecular Bioscience.

**Name:** Peter David Wilson, CA  
**Non-Executive:** Yes  
**Country of Residence:** New Zealand  
**Primary Occupation:** Director  
**Board Audit Committee Member:** Yes  
**Independent Director:** Yes

**External Directorships:** Chairman of each of Port of Napier Limited, Evergreen Forests Limited, and Global Equities Market Securities Limited; Director of each of The Colonial Motor Company Limited, Urbus Properties Limited and Hill Country Corporation Limited. Member of the New Zealand Exchange Limited Discipline Body.

The contact address for each of the directors is the same as that noted below under the heading New Zealand Chief Executive Officer/Responsible Person.

#### **NEW ZEALAND CHIEF EXECUTIVE OFFICER/RESPONSIBLE PERSON**

The New Zealand Chief Executive Officer, Ann Sherry has been authorised in writing by each Director named on pages 2 and 3, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this General Disclosure Statement on the Directors' behalf. Accordingly, Ann Sherry is a Responsible Person under the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand). The following disclosures are made in relation to Ann Sherry in her capacity as New Zealand Chief Executive Officer and as a responsible person:

**Ann Sherry** AO, BA, GradDipIR, MAICD, FAIBF, FIPAA  
Chief Executive Officer, Westpac New Zealand  
**Country of Residence:** New Zealand  
**External Directorships:** Director of Salvation Communications Proprietary Limited

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

#### **CONFLICTS OF INTEREST POLICY**

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

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

#### **INTERESTED TRANSACTIONS**

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

- (a) other than on the NZ Bank's or the NZ Banking Group's normal terms and conditions in the ordinary course of business; or
- (b) which could be reasonably likely to influence materially the exercise of the Directors', or the New Zealand Chief Executive's duties.

## **SOLICITORS**

Simpson Grierson  
HSBC Tower  
195 Lambton Quay  
Wellington, New Zealand

## **AUDITORS**

### **Overseas Banking Group**

PricewaterhouseCoopers  
201 Sussex Street  
Sydney, NSW 1171  
Australia

### **New Zealand Banking Group**

PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay Street  
Auckland, New Zealand

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## Credit ratings

The Overseas Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. There have been no changes to these credit ratings in the two preceding years. These credit ratings are given without any qualifications:

Rating Agency	Current Credit Rating
Standard & Poor's	<b>AA-</b>
Moody's Investors Service Inc.	<b>Aa3</b>
Fitch IBCA	<b>AA-</b>

### DESCRIPTIONS OF CREDIT RATING SCALES

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

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

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

**Bold** indicates the Overseas Bank's current approximate position within the Credit Rating Scales.

## Financial statements of the Overseas Bank and the Overseas Banking Group

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

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group can also be accessed at the internet address [www.westpac.com.au](http://www.westpac.com.au).

## Historical summary of financial statements

### NZ Banking Group

	Six months ended 31 March 2005 Unaudited	Year ended 30 September 2004 Audited	Year ended 30 September 2003 Audited	Year ended 30 September 2002 Audited	Year ended 30 September 2001 Audited	Year ended 30 September 2000 Audited
Note	\$m	\$m	\$m	\$m	\$m	\$m
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>						
Interest income	1,475	2,596	2,368	2,075	2,326	2,109
Interest expense	(917)	(1,499)	(1,335)	(1,160)	(1,501)	(1,301)
<b>Net interest income</b>	<b>558</b>	<b>1,097</b>	<b>1,033</b>	<b>915</b>	<b>825</b>	<b>808</b>
Non-interest income	(i) 306	591	538	596	469	459
<b>Operating income</b>	<b>864</b>	<b>1,688</b>	<b>1,571</b>	<b>1,511</b>	<b>1,294</b>	<b>1,267</b>
Non-interest expenses	(360)	(731)	(699)	(685)	(639)	(656)
<b>Operating profit before bad and doubtful debts expense</b>	<b>504</b>	<b>957</b>	<b>872</b>	<b>826</b>	<b>655</b>	<b>611</b>
Bad and doubtful debts expense	(ii) (21)	(39)	(205)	(40)	(45)	(32)
<b>Operating profit before income tax expense</b>	<b>483</b>	<b>918</b>	<b>667</b>	<b>786</b>	<b>610</b>	<b>579</b>
Income tax expense	(158)	(297)	(203)	(168)	(131)	(144)
<b>Operating profit after income tax expense</b>	<b>325</b>	<b>621</b>	<b>464</b>	<b>618</b>	<b>479</b>	<b>435</b>
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	(2)	(4)	(2)	(4)	(14)	(26)
<b>Operating profit after income tax expense attributable to NZ Banking Group equity holders</b>	<b>323</b>	<b>617</b>	<b>462</b>	<b>614</b>	<b>465</b>	<b>409</b>
Dividends paid or provided for on ordinary share capital	-	-	(180)	(150)	(105)	(56)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	-	(27)	(41)	(71)	(59)
Dividends paid or provided for on convertible debentures (net of tax)	(53)	(138)	(64)	(33)	(33)	(34)
Dividends paid or provided for on NZ Class Shares	(26)	(50)	(44)	(44)	(19)	(55)
Remittance to the Overseas Bank	-	(350)	-	(200)	(67)	(40)
<b>Operating profit retained</b>	<b>244</b>	<b>79</b>	<b>147</b>	<b>146</b>	<b>170</b>	<b>165</b>
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets	46,784	42,534	39,945	37,458	38,178	35,017
Total impaired assets	50	58	71	92	146	151
Total liabilities	42,114	38,107	34,920	33,148	34,330	31,416
Equity	(iii) 4,670	4,427	5,025	4,310	3,848	3,601

The amounts for the years ended 30 September have been extracted from the audited financial statements of the NZ Banking Group. Certain comparative figures have been restated to ensure consistent treatment with the current reporting period.

- (i) The NZ Banking Group's non-interest income for the year ended 30 September 2002 included a gain on sale of the assets and liabilities of Australian Guarantee Corporation (N.Z.) Limited (now known as Augusta 1962 Limited). The total gain on sale was \$105 million, net of transactional and disposal costs.
- (ii) During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect of the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of \$178 million relating to its credit exposures.
- (iii) During the year ended 30 September 2004, the NZ Bank redeemed \$586 million of convertible debentures (net of issue costs) issued to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust I. During the year ended 30 September 2003: (a) the NZ Bank issued \$1,994 million of convertible debentures (net of issue costs), \$715 million of which were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and \$1,279 million to JP Morgan Chase Bank as trustee of Tavarua Funding Trust III; (b) the NZ Bank redeemed \$600 million of branch capital; and (c) the NZ Bank redeemed \$900 million of subordinated capital instruments issued to Westpac Overseas Funding Pty Limited.

During the year ended 30 September 2001: (a) Westpac Capital - NZ - Limited redeemed all of the \$400 million of subordinated capital instruments it had issued to Westpac Overseas Funding Pty Limited; and (b) the Overseas Bank made a capital contribution of \$600 million to the NZ Bank.

During the year ended 30 September 2000, a subsidiary of the NZ Banking Group, Westpac (NZ) Investments Limited, issued \$650 million of NZ Class Shares. A first instalment of \$7.20 per NZ Class Share was received on application and a final instalment of \$4.75 per NZ Class Share was received on 20 December 2000.



## Market risk

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

The peak end-of-day exposure and as at exposures below have been calculated using the Overseas Banking Group's equity as at 31 March 2005 (31 March 2004 for comparatives).

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2005 Unaudited \$m	31 March 2005 Unaudited \$m	As at 31 March 2004 Unaudited \$m	31 March 2004 Unaudited \$m
Aggregate interest rate exposure	152	210	136	190
As a percentage of the Overseas Banking Group's equity	0.86%	1.19%	0.75%	1.05%
Aggregate foreign currency exposure	2	7	1	6
As a percentage of the Overseas Banking Group's equity	0.01%	0.04%	0.01%	0.03%

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

## Guarantee arrangements

Certain material obligations of the Overseas Bank are subject to guarantees.

Westpac Capital - NZ - Limited and Westpac (NZ) Investments Limited (the "NZ Bank guarantors") have each unconditionally guaranteed the due and punctual payment of the Overseas Bank's liabilities under debt securities offered to the public (the "NZ Bank guarantees") in respect of which a prospectus was required under the Securities Act 1978 (New Zealand).

From 1 July 1996, the NZ Bank was no longer required to issue prospectuses for debt securities under the Securities Act 1978 (New Zealand). Therefore, the NZ Bank guarantees do not relate to debt securities offered after 30 June 1996.

The NZ Bank guarantors both gave notice, on 30 September 1998 and 23 October 1998 respectively, that they were cancelling the NZ Bank guarantees which they gave on 28 September 1990. Cancellation became effective from 30 June 1999 and 23 July 1999 respectively for subsequently incurred liabilities. Liabilities existing as at these dates are still covered by the guarantees issued by the NZ Bank guarantors. The NZ Bank guarantors' address for service is Level 15, 188 Quay Street, Auckland and both are members of the NZ Banking Group.

The liabilities of the NZ Bank guarantors in respect of the above guarantees are unlimited. There are no material conditions applying to any of the guarantees other than non-performance by the applicable guaranteed party. There are no material legislative or regulatory provisions which could subordinate claims under the guarantees to other claims on each of the guarantors.

The most recent audited financial statements of the NZ Bank guarantors are for the year ended 30 September 2004. There are no qualifications in the audit reports accompanying those financial statements. The net tangible assets of the guarantors, as shown by their most recent audited financial statements were as follows:

	30 September 2004 \$m	30 September 2003 \$m
Westpac Capital - NZ - Limited	241	227
Westpac (NZ) Investments Limited	679	699

There is no credit rating applicable to the NZ Bank guarantors' long term senior unsecured obligations payable in New Zealand in New Zealand dollars.

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

The NZ Banking Group has guarantee arrangements in place in relation to structured finance transactions.

## Ranking of local creditors in a winding-up

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

However, the Westpac Banking Corporation Act 1982 in New Zealand gives New Zealand depositors priority to the New Zealand assets of the Overseas Bank. Accordingly, New Zealand depositors will rank ahead of other unsecured creditors of the Overseas Bank in respect of claims against the New Zealand assets of the Overseas Bank. The following legislation is relevant to limitations on possible claims made by unsecured creditors of the NZ Bank on the assets of the Overseas Bank relative to those of any other class of unsecured creditors of the Overseas Bank, in the event of a winding-up of the Overseas Bank.

Section 13A (3) of the Banking Act 1959 (Australia) states:

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

Section 13A (3) of the Banking Act 1959 (Australia) affects all the unsecured deposit liabilities of the NZ Bank which as at 31 March 2005 amounted to \$26,815 million (31 March 2004: \$24,275 million; 30 September 2004: \$25,520 million).

The Overseas Bank is an ADI within the meaning of section 13A (3).

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

“Deposit liabilities –

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

The NZ Bank has at all times held in New Zealand assets (other than goodwill) of not less than the value of the NZ Bank’s total deposit liabilities in New Zealand. The Overseas Bank is the “Continuing Bank” within the meaning of section 23.

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## Pending proceedings or arbitration

There is one legal proceeding pending at the date of this General Disclosure Statement that may have a material adverse effect on the NZ Bank or the NZ Banking Group. The New Zealand Commerce Commission has filed proceedings against the NZ Bank under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. In addition proceedings have been filed by the NZ Bank against the New Zealand Inland Revenue Department (“NZIRD”) in which the NZ Bank is disputing the tax assessments received on 30 September 2004 from the NZIRD in relation to its investigation of certain structured finance transactions. A description of the Commerce Commission proceedings, the NZIRD investigation and various contingent liabilities of the NZ Bank and the NZ Banking Group is set out in note 26 to the consolidated financial statements included in this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group’s likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group’s 30 September 2004 Annual Financial Report and the 31 March 2005 Interim Financial Report.

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## Local incorporation

The Reserve Bank of New Zealand's ("Reserve Bank") policy is that all systemically important banks must incorporate as a local entity rather than operate via a branch. In December 2004, the Board of the Overseas Bank announced that the key operations in New Zealand would be locally incorporated. As legislation will probably be required to incorporate, it is likely this process will take some time. The NZ Bank is not yet in a position to fully quantify costs, but it is anticipated that the cost of local incorporation will not be material, in the context of the financial statements of the NZ Bank and NZ Banking Group.

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## Conditions of registration

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

1. That the NZ Banking Group does not conduct any non-financial activities that in aggregate are material, relative to its total activities.
2. That the NZ Banking Group's insurance business is not greater than one percent of its total consolidated assets. For the purposes of this condition:
  - (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Rating and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
  - (ii) In measuring the size of the NZ Banking Group's insurance business:
    - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
      - the total consolidated assets of the Group headed by that entity;
      - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the Group headed by the latter entity;
    - (b) otherwise, the size of each insurance business conducted by any entity within the NZ Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
    - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the NZ Banking Group. All amounts in part (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; and
    - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
3. That the business of the NZ Bank does not constitute a predominant proportion of the business of the Overseas Banking Group.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the Overseas Bank shall be made unless:
  - (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (ii) the Reserve Bank has advised that it has no objection to that appointment.
5. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That the Overseas Bank complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
  - Tier One Capital of the Overseas Banking Group is not less than four percent of risk weighted exposures;
  - Capital of the Overseas Banking Group is not less than eight percent of risk weighted exposures.

Further information on the capital adequacy of the Overseas Bank is contained in note 33 to the financial statements.

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

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## The directors' statement

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

- (a) the Disclosure Statement contains all information that is required by the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 2005 (New Zealand); and
- (b) the Disclosure Statement is not false or misleading.

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

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

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



Dated this the 5th day of May 2005.

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# Consolidated financial statements

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# Statements of financial performance

For the six months ended 31 March 2005

	NZ Banking Group			NZ Bank			
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	
Interest income	3	1,475	1,242	2,596	1,451	1,195	2,515
Interest expense	3	(917)	(701)	(1,499)	(1,033)	(775)	(1,666)
<b>Net interest income</b>		<b>558</b>	541	1,097	<b>418</b>	420	849
Non-interest income	4	306	290	591	278	248	512
<b>Operating income</b>		<b>864</b>	831	1,688	<b>696</b>	668	1,361
Non-interest expenses	5	(360)	(356)	(731)	(411)	(370)	(761)
<b>Operating profit before bad and doubtful debts expense</b>		<b>504</b>	475	957	<b>285</b>	298	600
Bad and doubtful debts expense	6	(21)	(18)	(39)	(20)	(16)	(39)
<b>Operating profit before income tax expense</b>		<b>483</b>	457	918	<b>265</b>	282	561
Income tax expense	7	(158)	(145)	(297)	(39)	(48)	(106)
<b>Operating profit after income tax expense</b>		<b>325</b>	312	621	<b>226</b>	234	455
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(2)	(2)	(4)	-	-	-
<b>Operating profit after income tax expense attributable to NZ Banking Group equity holders</b>		<b>323</b>	310	617	<b>226</b>	234	455

The following notes (numbered 1 to 36) form part of and should be read in conjunction with these financial statements.

## Statements of movements in equity

For the six months ended 31 March 2005

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited Note	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>Balance at beginning of the period</b>	<b>4,427</b>	5,025	5,025	<b>2,424</b>	3,062	3,062
Operating profit after income tax expense attributable to NZ Banking Group equity holders	<b>323</b>	310	617	<b>226</b>	234	455
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	<b>2</b>	2	4	-	-	-
<b>Total recognised revenue and expenses</b>	<b>325</b>	312	621	<b>226</b>	234	455
Ordinary share capital:						
Issue of ordinary share capital	-	50	50	-	-	-
Dividends paid on ordinary share capital	-	-	-	-	-	-
Convertible debentures:	23					
Dividends paid or provided for on convertible debentures (net of tax)	<b>(53)</b>	(78)	(138)	<b>(53)</b>	(78)	(138)
Redemption of convertible debentures <sup>1</sup>	-	-	(605)	-	-	(605)
NZ Class Shares:	25					
Dividends paid on NZ Class Shares	<b>(26)</b>	(25)	(50)	-	-	-
Purchase of NZ Class Shares – Treasury Stock	<b>(1)</b>	-	(19)	-	-	-
Other minority interests	<b>(2)</b>	(100)	(107)	-	-	-
Remittance to the Overseas Bank	-	(350)	(350)	-	(350)	(350)
<b>Balance at end of the period</b>	<b>4,670</b>	4,834	4,427	<b>2,597</b>	2,868	2,424

The following notes (numbered 1 to 36) form part of and should be read in conjunction with these financial statements.

1. This represents the proceeds from the convertible debentures which had previously been recognised net of issue costs and related tax of \$19 million.

# Statements of financial position

As at 31 March 2005

	NZ Banking Group			NZ Bank			
	Note	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>ASSETS</b>							
Cash		128	107	101	128	107	101
Due from other financial institutions	9	153	86	354	152	85	353
Trading securities	10	2,798	2,421	2,653	2,798	2,421	2,653
Loans	11,12	38,912	34,959	36,093	34,377	30,077	31,492
Investment in related entities	14	-	-	-	1,777	1,777	1,777
Due from related entities	14	1,753	1,181	750	5,947	5,563	4,932
Property, plant and equipment	15	197	223	212	119	134	129
Intangible assets	16	540	587	564	457	496	477
Other assets	17	2,303	2,784	1,807	1,979	2,458	1,543
<b>Total assets</b>		<b>46,784</b>	42,348	42,534	<b>47,734</b>	43,118	43,457
Less:							
<b>LIABILITIES</b>							
Due to other financial institutions	18	983	467	1,071	983	467	1,071
Deposits	19	26,720	24,083	25,325	26,715	24,078	25,320
Bonds, notes and commercial paper	20	9,420	8,532	7,772	100	197	200
Other liabilities	21	3,169	3,602	2,585	2,908	3,449	2,414
<b>Total liabilities excluding subordinated debt and due to related entities</b>		<b>40,292</b>	36,684	36,753	<b>30,706</b>	28,191	29,005
Subordinated debt	22	741	50	785	741	50	785
<b>Total liabilities excluding due to related entities</b>		<b>41,033</b>	36,734	37,538	<b>31,447</b>	28,241	29,790
Due to related entities	14	1,081	780	569	13,690	12,009	11,243
<b>Total liabilities</b>		<b>42,114</b>	37,514	38,107	<b>45,137</b>	40,250	41,033
<b>Net assets</b>		<b>4,670</b>	4,834	4,427	<b>2,597</b>	2,868	2,424
Represented by:							
<b>EQUITY</b>							
Ordinary share capital		132	132	132	-	-	-
Convertible debentures	23	1,994	2,580	1,994	1,994	2,580	1,994
Property revaluation reserve	24	-	-	-	-	-	-
Retained earnings		1,309	860	1,065	603	288	430
<b>Total NZ Banking Group equity</b>		<b>3,435</b>	3,572	3,191	<b>2,597</b>	2,868	2,424
NZ Class Shares	25	578	598	579	-	-	-
Other minority interests		657	664	657	-	-	-
<b>Total equity</b>		<b>4,670</b>	4,834	4,427	<b>2,597</b>	2,868	2,424

The following notes (numbered 1 to 36) form part of and should be read in conjunction with these financial statements.



# Statements of cash flows

For the six months ended 31 March 2005

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Interest income received	1,407	1,230	2,579	1,425	1,189	2,527
Non-interest income received	305	282	516	276	240	438
Decrease/(increase) in trading securities and derivative financial instruments	13	(54)	(578)	12	(64)	(602)
Interest paid	(872)	(690)	(1,456)	(1,029)	(770)	(1,668)
Non-interest expenses paid	(357)	(382)	(645)	(432)	(417)	(699)
Income tax paid	(95)	(96)	(261)	(15)	(11)	(63)
<b>Net cash flows from operating activities</b>	<b>401</b>	290	155	<b>237</b>	167	(67)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Disposal of property, plant and equipment	13	1	3	5	-	1
Purchase of property, plant and equipment	(34)	(30)	(58)	(21)	(22)	(45)
Increase in loans	(2,842)	(1,714)	(2,878)	(2,905)	(2,043)	(3,481)
Disposal of related entities	-	188	427	-	-	-
Movement in other assets	(16)	(124)	(85)	-	(22)	(23)
<b>Net cash flows from investing activities</b>	<b>(2,879)</b>	(1,679)	(2,591)	<b>(2,921)</b>	(2,087)	(3,548)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Decrease/(increase) in due from other financial institutions - term	27	(246)	(67)	27	(246)	(67)
(Decrease)/increase in due to other financial institutions - term	(255)	228	832	(255)	228	832
Increase in deposits	1,395	1,541	2,783	1,395	1,541	2,783
Increase/(decrease) in bonds, notes and commercial paper	1,648	283	(477)	(100)	-	3
(Decrease)/increase in amounts due to and due from related entities	(491)	4	(16)	1,448	830	695
(Decrease)/increase in other liabilities	(10)	(5)	(6)	(22)	10	(35)
Issue of ordinary share capital	-	50	50	-	-	-
Issue of subordinated debt (net of issue costs)	-	-	785	-	-	785
Redemption of convertible debentures	-	-	(605)	-	-	(605)
Redemption of subordinated debt	(44)	-	(50)	(44)	-	(50)
Dividends paid on convertible debentures	(79)	(116)	(204)	(79)	(116)	(204)
Dividends paid on NZ Class Shares	(26)	(25)	(50)	-	-	-
Purchase of NZ Class Shares - Treasury Stock	(1)	-	(19)	-	-	-
Remittance to the Overseas Bank	-	(350)	(350)	-	(350)	(350)
<b>Net cash flows from financing activities</b>	<b>2,164</b>	1,364	2,606	<b>2,370</b>	1,897	3,787
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(314)</b>	(25)	170	<b>(314)</b>	(23)	172
Cash and cash equivalents at beginning of the period	208	38	38	207	35	35
<b>Cash and cash equivalents at end of the period</b>	<b>(106)</b>	13	208	<b>(107)</b>	12	207
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>						
Cash	128	107	101	128	107	101
Due from other financial institutions - at call	113	86	287	112	85	286
Due to other financial institutions - at call	(347)	(180)	(180)	(347)	(180)	(180)
<b>Cash and cash equivalents at end of the period</b>	<b>(106)</b>	13	208	<b>(107)</b>	12	207

## Statements of cash flows continued

For the six months ended 31 March 2005

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX EXPENSE TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating profit after income tax expense attributable to NZ Banking Group equity holders	<b>323</b>	310	617	<b>226</b>	234	455
<b>Adjustments:</b>						
Amortisation of intangible assets	<b>24</b>	24	47	<b>20</b>	20	39
Bad and doubtful debts expense	<b>21</b>	18	39	<b>20</b>	16	39
Depreciation/amortisation	<b>36</b>	33	70	<b>26</b>	23	50
Intragroup minority interests in subsidiary companies	<b>2</b>	2	4	-	-	-
Movement in accrued assets	<b>(56)</b>	(42)	(64)	<b>(24)</b>	(10)	(28)
Movement in accrued liabilities	<b>(23)</b>	(47)	57	<b>(65)</b>	(85)	11
Movement in income tax provisions	<b>63</b>	50	37	<b>24</b>	37	43
Movement in trading securities and derivative financial instruments	<b>11</b>	(58)	(652)	<b>10</b>	(68)	(676)
<b>Net cash flows from operating activities</b>	<b>401</b>	290	155	<b>237</b>	167	(67)

The following notes (numbered 1 to 36) form part of and should be read in conjunction with these financial statements.

# Notes to the financial statements

## NOTE 01 STATEMENT OF ACCOUNTING POLICIES

### GENERAL ACCOUNTING POLICIES

#### Statutory Base

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand), the Reserve Bank of New Zealand Act 1989, and all applicable financial reporting standards and other generally accepted accounting practices in New Zealand.

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

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

These financial statements were authorised for issue by the Board of Directors on 3 May 2005.

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#### Measurement Base

The financial statements are based on the general principles of historical cost accounting, as modified by the revaluation of certain assets. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand currency unless otherwise stated.

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#### Basis of Aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Bank, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited and the consolidated capital and reserves of Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited and Westpac Financial Services Group - NZ - Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

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#### Comparative Figures

Certain comparative figures have been restated so as to enhance comparability with the current reporting period. As a result of on-going analysis of hedges on structured finance transactions, the results of hedges have been reclassified from interest expense to non-interest income. This has resulted in a decrease of \$3 million in interest income, a decrease in interest expense of \$81 million and a decrease of \$78 million in other non-interest income for the reporting period ended 31 March 2004 compared to that originally published. The impact on the operating profit of the NZ Banking Group for the reporting period ended 31 March 2004 was nil.

A portion of the deposit balance had been incorrectly classified as interest bearing. The comparative figures have been restated by reclassifying interest bearing deposits of around \$1 billion to non-interest bearing. The impact on operating profit was nil.

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## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

#### PARTICULAR ACCOUNTING POLICIES

**Bad and Doubtful Debts** Throughout each financial period appraisals of outstanding customer exposures (including both on and off-balance sheet commitments) are made and where they are considered doubtful, specific provisions are established by a charge against operating profit. All known bad debts are written off in the period in which they are identified either against such specific provisions, or where specific provisions have not been established in respect of such bad debts, by a direct charge against operating profit.

A general provision is maintained to cover expected losses inherent in the NZ Banking Group's existing overall loan portfolio that are not yet identifiable. In determining the level of general provision a statistical methodology called dynamic provisioning is employed. This methodology assists management in making estimates and judgement based on historical experience, business conditions, the composition of the portfolio, industry best practices and publicly available default data.

Further information on the general provision held by the NZ Bank and NZ Banking Group is available in note 12 to the financial statements.

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#### **Derivative Financial Instruments**

Derivatives are bilateral contracts or payment exchange agreements whose value derives from the value of an underlying asset, reference rate or index. Derivative financial instruments include forwards, futures, options and swaps.

##### **Trading**

The positive or negative net fair values of trading derivative financial instruments are included in the statement of financial position under "other financial markets assets" and "other financial markets liabilities" respectively. Traded derivative financial instruments including forwards, futures, options, forward purchases and sales of securities, entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposure.

##### **Hedging**

Foreign exchange and interest rate forwards, futures, options and swaps entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the underlying hedged item. To qualify as a hedge, the swap, forward, futures or option position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated. Effectiveness of the hedge is evaluated on an initial and ongoing basis by comparing the correlation of the change in the market or fair value of the hedge with the change in value of the hedged item.

If a hedge contract is terminated early, any resulting gain or loss is deferred and amortised over the periods corresponding to the term of the hedged item. Where the hedged item ceases to exist, the corresponding derivative hedge contract is settled, redesignated or closed out and any resulting gains or losses are recorded in the statement of financial performance.

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#### **Fees**

##### **Fee income**

Application and activity fees are recognised when derived. Front end fees, if material, are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk. The balance of front end fees is considered to represent the recovery of costs and is taken to operating profit upon receipt. Credit card fees are recognised when charged to the customer's account.

##### **Fee expense**

Significant loan origination fees are amortised on a straight-line basis over the estimated life of the loan. Other fees paid are expensed as incurred.

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## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

<b>Foreign Currency</b>	<p>Foreign currency assets and liabilities have been translated to New Zealand dollars at the mid-point 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.</p> <p>Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the NZ Banking Group have been included in the statement of financial performance in operating profit.</p>
<b>Funds Management and Trust Activities</b>	<p>The NZ Banking Group conducts investment management and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and are not included in these financial statements.</p>
<b>Goods and Services Tax</b>	<p>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.</p>
<b>Impaired Assets</b>	<p>Impaired assets consist of:</p> <ul style="list-style-type: none"><li>■ Non-accrual assets, which are defined as assets in respect of which income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.</li><li>■ 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.</li><li>■ Real estate or other assets acquired through security enforcement or where the NZ Banking Group has assumed ownership of an asset in settlement of all or part of a debt.</li></ul> <p>Although not classified as impaired assets, assets that are in arrears for 90 or more consecutive days but are well-secured are reported separately. These are known as "past due assets".</p> <p>Although not classified as impaired assets or past due assets, 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".</p>
<b>Interest</b>	<p><b>Interest income</b></p> <p>Interest income is brought to account on an accrual basis. Interest, including premiums and discounts, on trading and investment securities is brought to account on a yield to maturity basis. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against interest income. Such interest is known as "interest revenue forgone" and is calculated using an internal benchmark rate. Unpaid interest relating to prior financial reporting years is either written off as a bad debt or specific provisions are made as necessary.</p> <p><b>Interest expense</b></p> <p>Interest expense is brought to account on an accrual basis.</p>
<b>Intangible Assets</b>	<p>Intangible assets (comprising goodwill) are amortised against operating income on a straight-line basis over the periods in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of intangible assets is reviewed at least annually. If the carrying value of intangible assets exceeds the value of the expected future benefits, the difference is charged to the statement of financial performance.</p>

# Notes to the financial statements

## NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

<b>Leasing</b>	<p>Finance leases are accounted for using the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance. Finance leases are included in the statement of financial position as “loans”.</p> <p>Investments in leveraged lease and equity lease partnerships are included in the statement of financial position as “loans”. Income recognition is based on a method which yields a constant rate of return on the outstanding lease investment.</p>
<b>Life Insurance</b>	<p><b>Assets</b></p> <p>Life insurance assets are recorded at market value. Gains and losses realised from the sale of life insurance assets and unrealised market value adjustments are included in the statement of financial performance.</p> <p><b>Liabilities</b></p> <p>Policyholder liabilities have been calculated using the Margin on Services methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 <i>Determination of Life Insurance Policy Liabilities</i>.</p> <p>Provision has also been made for estimated liabilities in respect of claims notified, but not settled as at balance date, together with an allowance for incurred but not reported claims.</p>
<b>Property, Plant and Equipment</b>	<p>Freehold land and buildings are carried at cost less accumulated depreciation. Write-downs to recoverable value are recognised as an expense in the statement of financial performance.</p> <p>Depreciation of freehold buildings and freehold improvements is calculated on a straight-line basis at rates appropriate to their estimated useful lives, on average 40 years. The cost of improvements to leasehold premises is capitalised and amortised over the remaining term of the lease, but not exceeding seven years.</p> <p>Furniture and fittings, motor vehicles and equipment are shown at cost less accumulated depreciation, which is calculated on a straight-line basis at rates appropriate to their estimated useful life, ranging from three to seven years.</p> <p>Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Capitalised software is amortised over its expected life, which is usually three years. Costs incurred on computer software maintenance are expensed as incurred.</p>
<b>Redeemable Preference Share Finance</b>	<p>The provision of finance to customers by way of redeemable preference shares is included in the statement of financial position as “loans”. Dividend income recognition is based on a method which yields a constant rate of return on the outstanding balance and is included in the statement of financial performance as “interest income”.</p>
<b>Redemption of Convertible Debentures</b>	<p>Convertible debentures reported as equity in the statement of financial position are reclassified as liabilities when the NZ Bank gives notice that they are going to be redeemed. The amount recognised as a liability is the amount payable on redemption. Issue costs, previously treated as a reduction in the equity amount recognised, and related tax are deducted from retained earnings. Distributions relating to the reporting period the convertible debentures are classified as a liability are recognised as an interest expense in the statement of financial performance.</p>
<b>Repurchase Agreements and Short Sales of Securities</b>	<p>Securities sold under agreements to repurchase are retained within the trading securities portfolios with a corresponding liability “securities sold under agreement to repurchase” established until the date of repurchase. Securities purchased under agreements to resell (reverse repurchase agreements) are included in the statement of financial position as “other assets”. Short sales of securities are recorded in other liabilities as “securities sold short”.</p>

## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

#### Securitisation

The NZ Banking Group, through its loan securitisation programme, packages and sells mortgage loans as securities to investors. In such transactions the NZ Banking Group receives fees for various services provided to the programme on an arm's length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The NZ Banking Group also provides arm's length interest rate swaps and liquidity facilities to the programme in accordance with Australian Prudential Regulation Authority Prudential Guidelines. In addition, the NZ Banking Group is entitled to receive residual income, comprising mortgage loan interest (net of swap payments) not due to investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swap and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income are therefore recognised when receivable or payable. The residual income is included in non-risk fee income and classified as profit on sale of loans when receivable.

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#### Statement of Cash Flows

##### Basis of presentation

The statement of cash flows has been presented using the direct approach method (as required by the Institute of Chartered Accountants of New Zealand Financial Reporting Standard No. 10 *Statement of Cash Flows*) modified by the netting of certain items as disclosed below.

##### Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the NZ Banking Group, which are unconditionally convertible at the investor's or customer's option within no more than two working days and include the inter-bank balances arising from the daily Reserve Bank of New Zealand settlement process.

##### Netting of cash flows

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

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#### Superannuation Scheme

The NZ Banking Group's employee superannuation scheme uses the recognition and measurement criteria in International Accounting Standard (IAS) 19 *Employee Benefits*.

The actuarially assessed obligations of the NZ Banking Group's defined benefit employee superannuation scheme is recognised in the statement of financial position as "other assets", representing a prepayment of contributions to the scheme, or "other liabilities", representing any deficits to the scheme.

The superannuation cost for the defined benefit scheme is recognised in the statement of financial performance and comprises the current service cost, an interest cost and an expected return on plan assets. In addition, actuarial gains or losses which result from annual actuarial valuations, and which exceed the greater of 10% of the present value of the scheme obligations or, the fair value of assets, are recognised in the statement of financial performance on a straight-line basis over the expected remaining employees' service lives.

Superannuation costs for the defined contribution scheme are recognised in the statement of financial performance and comprise the contributions made by the NZ Banking Group.

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#### Taxation

Tax effect accounting has been adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent tax differences. The tax effect of timing differences, which occur where items are included or allowed for income tax purposes in a period different from that for accounting, is shown in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates. The liability method of interperiod allocation of income tax has been applied on a comprehensive basis.

Future income tax benefits have been recognised only where the realisation of such benefits in future periods is considered virtually certain.

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## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

#### **Trading Income**

Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance.

Both realised and unrealised gains and losses on trading derivative contracts are included in the statement of financial performance.

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#### **Trading Securities**

Trading securities are short and long term public, bank or other debt securities and equities, which are held for resale in day-to-day trading operations. Trading securities are recorded at their net fair value, generally based on quoted market prices or dealer quotes.

Trading and investment securities are accounted for on a trade date basis. Amounts receivable for securities sold but not yet delivered are included in the statement of financial position under "other assets". Amounts payable for securities purchased but not yet delivered are included in the statement of financial position under "other liabilities".

Short trading positions are included in the statement of financial position under "other liabilities".

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#### **Changes in Accounting Policies**

For the year ended 30 September 2004, a new accounting policy was introduced relating to the accounting for the redemption of convertible debentures. There have been no other changes in accounting policies used in the preparation of the General Disclosure Statement for the six months ended 31 March 2005 and those used in the preparation of the General Disclosure Statement for the six months ended 31 March 2004 and for the year ended 30 September 2004. All accounting policies have been applied on a basis consistent with those used in the previous financial reporting periods.

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#### **Adoption of International Financial Reporting Standards**

As disclosed in the Overseas Banking Group Annual Financial Report of 30 September 2004, the Overseas Banking Group anticipates it will be adopting the Australian equivalent to the International Financial Reporting Standards ("IFRS") from 1 October 2005. The NZ Banking Group will adopt the New Zealand equivalent to IFRS ("NZ IFRS") at the same time. For the purpose of producing comparative figures the NZ Banking Group transition date will be 1 October 2004. However, the opening balance sheet and the comparative figures for the year ending 30 September 2005 will exclude the impact of NZ IAS 32 *Financial Instruments: Presentation and Disclosure* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. These standards will be applied prospectively from 1 October 2005. The adoption of NZ IFRS will be first reflected in the General Disclosure Statement for the three months ending 31 December 2005.

The Overseas Banking Group (including relevant NZ Bank personnel) has operated a dedicated project team that has:

- a) identified the differences between the NZ Banking Group's current accounting policies and NZ IFRS;
- b) formulated revised accounting policies and process changes to allow compliance; and
- c) commenced implementation of the required changes.

The implementation stage is well underway and expected to be completed prior to 30 September 2005.

With the introduction of NZ IFRS the statement of financial performance will be the income statement and the statement of financial position will be the balance sheet.

The potential adjustments disclosed in this note are based on management's interpretation of the currently issued standards. These standards or management's interpretation could change and therefore, until the NZ Banking Group prepares its first full NZ IFRS financial statements, there is a possibility that the accompanying disclosures may have to be adjusted.



## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

#### **Adoption of International Financial Reporting Standards** *continued*

The primary impacts of the new standards for the NZ Banking Group are described below:

#### **Hedge Accounting (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)**

Initial impact on retained profit (impact not currently ascertained).

Volatility in future earnings.

New assets/liabilities recognised.

From 1 October 2005, all derivative contracts, whether used as hedging instruments or otherwise, will be carried at fair value on the NZ Banking Group's balance sheet. NZ IFRS allows fair value hedge accounting and cash flow hedge accounting and these can only be applied when effectiveness tests are met.

Ineffectiveness could prevent the use of hedge accounting and/or result in significant volatility in the statement of financial performance.

The hedging rules will impact the way the NZ Banking Group accounts for hedges of its net interest margin, assets and liabilities. Trading activities, where all derivatives are currently carried at fair value, will not be significantly impacted.

#### **Effective Yield (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)**

Initial impact on retained profit (estimated reduction of \$46 million before tax).

Increased deferral of fee income.

From 1 October 2005, certain fees received and expenses incurred in the origination of loans will be required to be deferred on the NZ Banking Group's balance sheet and subsequently recognised as a yield adjustment to interest income.

Although the annual impact on net profit is not expected to be material the classification of income will change.

#### **Income Recognition (NZ IAS 18 *Revenue*)**

Initial impact on retained profit (estimated reduction of \$10 million before tax).

Increased deferral of fee income.

On initial adoption of NZ IFRS certain fees that were previously recognised immediately will be deferred on the balance sheet to be recognised in the income statement over the period of service. The annual impact on net profit from this change is not expected to be material.

#### **Loan Impairment (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)**

Initial impact on retained profit (impact not currently ascertained).

Volatility in future earnings.

Lower general provision.

From 1 October 2005, under NZ IFRS the NZ Banking Group will be required to apply an incurred loss approach for loan provisioning and follow specific rules on the measurement of incurred losses. Specific provisions will be raised for losses that have already been incurred on loans that are known to be impaired. However, the estimated losses on these impaired loans will be discounted to their present value and as this discount unwinds, interest will be recognised in the income statement. Loans not found to be individually impaired will be collectively assessed for impairment in pools of similar assets with similar risk characteristics. The size of the provision will be estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience will be adjusted based on current observable data.

It is anticipated that the proposed changes will result in a reduction in the level of provisioning which the NZ Banking Group holds against its credit exposures. The extent of this reduction has not yet been determined. The proposed changes will result in increased volatility in the income statement.

## Notes to the financial statements

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

#### **Adoption of International Financial Reporting Standards** *continued*

##### **Goodwill (NZ IFRS 3 *Business Combinations*)**

Initial impact on retained profit (increase \$47 million).

Lower expenses (reduction \$47 million).

Volatility in earnings in the event of an impairment.

From initial adoption goodwill acquired in business combinations will no longer require amortisation, but will be subject to impairment testing at least annually. Impairment will be recognised immediately in the income statement if it occurs. The goodwill amortised in the year ended 30 September 2005 will be reversed against opening retained profits on transition to NZ IFRS.

##### **Employee Benefits (NZ IAS 19 *Employee Benefits*)**

Initial impact on retained profit (estimated reduction of \$59 million before tax).

Since 1 October 2001, the NZ Banking Group has applied the principles outlined in IAS 19 *Employee Benefits* in accounting for its defined benefit employee superannuation scheme, as outlined in the current accounting policies earlier in this note. On initial adoption of NZ IFRS the NZ Banking Group expects to make an adjustment to retained profits to recognise previously unrecognised actuarial losses permitted by the IFRS transition arrangements. The NZ Banking Group expects that subsequent actuarial gains or losses will be recognised in accordance with the existing corridor approach.

##### **Securitisation (NZ IAS 27 *Consolidated and Separate Financial Statements*)**

New assets/liabilities recognised.

A difference in the interpretation of the consolidation and derecognition rules under NZ IFRS and existing accounting standards will result in the NZ Banking Group consolidating a number of special purpose vehicles used for the securitisation of the NZ Banking Group's own and customer's assets. The consolidation of these vehicles will result in an increase in both assets and liabilities of the NZ Banking Group with no impact on net assets. There is not expected to be any material impact on net profit as a result of this change.

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

New liabilities recognised (expected reclassification from equity to debt \$715 million).

Higher interest expense (expected \$57 million before tax).

The NZ Banking Group has issued convertible debentures to other controlled entities of the Overseas Bank, which are currently classified as equity. As the NZ Banking Group expects to apply NZ IAS 32 *Financial Instruments: Disclosure and Presentation* prospectively from 1 October 2005, after this date the convertible debentures relating to Westpac Fixed Interest Resettable Trust Securities with a carrying value of \$715 million, are expected to be reclassified as debt and distributions on them of approximately \$57 million treated as interest expense.

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## Notes to the financial statements

### NOTE 02 RISK MANAGEMENT

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

#### MANAGEMENT ASSURANCE PROGRAMME

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

This programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management and discussions with the General Manager, Risk Management and the Chief Executive for New Zealand, a member of the Group Executive of the Overseas Bank.

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

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

#### Core risk principles

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

The principles for managing risk are:

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

#### Risk management organisation

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

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

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

Operational Risk plays a key role in the NZ Banking Group's risk management framework. It is independent from the business units and reports to the Head of NZ Risk Management who is accountable for the effectiveness of its risk processes. This risk function is also responsible for the coordination of the response to key regulatory developments and issues affecting risk management.

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

# Notes to the financial statements

## NOTE 02 RISK MANAGEMENT continued

### CATEGORIES OF RISK

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

#### Specific banking risks

The risk management framework encompasses credit, market, liquidity, operational and compliance risk.

#### 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 NZ Banking Group. It arises primarily from the NZ Banking Group's lending activities, as well as from transactions involving certain foreign exchange and derivative transactions.

For both on and off-balance sheet financial facilities, the NZ Banking Group takes collateral where it is considered necessary to mitigate credit risk. The NZ Banking Group 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 varies but could include cash deposits, receivables, inventory, plant and equipment, real estate and investments. Relationship managed facilities and product programmes (for consumer exposures managed on an exception basis, such as housing and cards) are subject to regular review to reassess their risk profile and compliance with expected performance.

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

#### Portfolio management

The NZ Banking Group monitors its portfolio to guard against the development of risk concentrations. This process has ensured that the NZ Banking Group's credit risk remains very well diversified throughout the New Zealand economy. Along with country and industry risk concentration limits and monitoring, the NZ Banking Group establishes 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 corporates, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the Risk Management Committee along with a strategy addressing the ongoing management of the excess.

#### Dynamic provisioning for credit loss

A statistical process called dynamic provisioning is employed to assess the general provision required to cover expected credit losses arising in the NZ Banking Group's credit portfolios. The statistical measures are based on experience as well as publicly available default data. The process provides for dynamic adjustments to a loss provision pool for changes in the size, mix and quality of the loan book.

For further information on the NZ Banking Group's provisioning for bad and doubtful debts refer to 'Particular Accounting Policies' in note 1 to the financial statements.

#### Foreign exchange and derivative credit risk management

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

## Notes to the financial statements

### NOTE 02 RISK MANAGEMENT continued

#### 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.

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

#### Trading activities

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

#### Daily VaR

VaR is the primary mechanism used for measuring and controlling market risk. VaR is an estimate of the worst case loss in value of trading positions, to a 99% confidence level, assuming positions were held unchanged for one day. The historical simulation method is used to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is backtested daily.

#### OTHER BANKING ACTIVITIES

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

#### NON-TRADING RISK

##### Management of structural interest rate risk

The NZ Banking Group's Treasury Unit manages the sensitivity of NZ Banking Group's net interest income to changes in wholesale market interest rates. This sensitivity arises from lending and deposit taking activity in the normal course of business in and through the investment of capital and other non-interest bearing liabilities. The unit's risk management objective is to help ensure the reasonable stability of net interest income over time. These activities are performed under the direction of the NZ Bank's Asset and Liability Committee ("NZ ALCO") and the oversight of the Overseas Banking Group's Trading Risk Management unit and Group MARCO.

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

A simulation model is used to calculate the potential net interest income at risk. The net interest income simulation framework combines underlying statement of financial position data with:

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

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

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

## Notes to the financial statements

### **NOTE 02 RISK MANAGEMENT continued**

#### **Structural foreign exchange risk**

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

#### **Operational risk**

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

Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk. The existence of a defined operational risk framework supports the management of operational risk. On a quarterly basis, as part of the Management Assurance Programme, each of the business areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from key corporate centre functions such as legal, finance, human resources, risk management, compliance and internal audit. The results of this process are reported quarterly to the Chief Executive for New Zealand and the Board Risk Management Committee.

Group operational risk principles ensure consistency in approach across business functions and distribution channels.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change control disciplines and business continuity planning. Where appropriate this is supported by risk transfer mechanisms such as insurance. The NZ Banking Group's control environment is enhanced by a focus on staff competency and supervision.

The internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports the results separately to the Chief Executive for New Zealand, the Board Audit Committee and the Board Risk Management Committee.

#### **Equity risk**

Equity risk is the risk of loss arising from changes in the price of equity investments held by the NZ Banking Group. The NZ Banking Group has no material exposure to equity risk.

#### **Compliance risk**

The NZ Banking Group's business is subject to regulation and regulatory oversight. Any significant regulatory developments, including changes to accounting standards (refer to sections on 'General Accounting Policies' and 'Particular Accounting Policies' in note 1 to the financial statements), could have an adverse effect on how business is conducted and on results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the NZ Banking Group's control.

Regulatory responsibilities have increased significantly over the last year. In order to manage existing and new requirements in a more effective way the development of the ability to provide early detection monitoring of these responsibilities to the business has been accelerated. Compliance risk management enables the NZ Banking Group to identify emerging issues and where necessary put in place preventative measures.

While compliance is primarily a line management responsibility, with each business area required to demonstrate an effective process, there are also several group-wide initiatives designed to ensure consistency. For example, Group Compliance approves policy approaches to be adopted for the Overseas Banking Group and receives progress implementation reports in respect of major new regulatory changes.

A progressive implementation approach is continually applied, which is designed to better align the NZ Banking Group's practices with the Australian Standard on Compliance Management.

# Notes to the financial statements

## **NOTE 02 RISK MANAGEMENT continued**

### **LIQUIDITY**

#### **Liquidity risk**

Liquidity risk is the potential inability to meet payment obligations of the NZ Banking Group. Liquidity management in New Zealand is administered by the Treasury Unit. Treasury is responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

Treasury manages group funding with oversight from the Group MARCO and the BRMC. The BRMC approve and monitor a range of policies relating to liquidity and liability generation. Quarterly compliance reports are submitted to Group MARCO and the BRMC.

Key aspects of the liquidity management strategy are as follows:

#### **Annual liquidity risk framework review**

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

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

The Overseas Banking Group liquidity management approach is reviewed by Group MARCO and Group Risk Reward Committee ("GRRC") before being submitted for approval by BRMC.

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

#### **Annual funding plan**

Each year 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 Annual Funding Plan is reviewed by Group MARCO and GRRC before being submitted for approval by BRMC.

#### **Contingency planning**

Group Treasury maintains a Contingency 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.

## Notes to the financial statements

### **NOTE 02 RISK MANAGEMENT continued**

#### **Liquidity risk capital**

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

#### **Expense allocation**

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

#### **Sources of liquidity**

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

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

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

As at 31 March 2005, the NZ Banking Group held liquid assets of \$2,282 million (31 March 2004: \$1,923 million; 30 September 2004: \$2,504 million). For the purpose of this note, liquid assets are a pool of high quality assets (government securities and registered certificates of deposit issued by other banks) readily convertible to cash to meet the NZ Banking Group's liquidity requirements.

#### **GROUP AUDIT**

The NZ Banking Group has an independent internal audit unit ("Group Audit") which reports, through the Overseas Banking Group's internal Group Assurance unit, to the BAC.

The BAC comprises of six non-executive and independent Directors of the Overseas Bank. The Committee 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 Overseas Banking Group's internal and external auditors, as well as monitoring the relationship between management and the external auditors.

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

#### **REVIEWS IN RESPECT OF RISK MANAGEMENT SYSTEMS**

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

Group Audit annually reviews the adequacy and effectiveness of the market risk and liquidity systems controls.

The 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 in New Zealand. Group Audit reviews controls over the adequacy and effectiveness of the dynamic provisioning systems annually.

The above reviews were carried out by parties internal to the Overseas Banking Group.

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## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 03 INTEREST</b>						
<b>INTEREST INCOME</b>						
Loans	1,469	1,236	2,577	1,287	1,033	2,186
Impaired assets	2	2	2	1	2	2
Related entities	1	-	9	161	158	319
Other	3	4	8	2	2	8
<b>Total interest income</b>	<b>1,475</b>	<b>1,242</b>	<b>2,596</b>	<b>1,451</b>	<b>1,195</b>	<b>2,515</b>
<b>INTEREST EXPENSE</b>						
Deposits and bills payable	748	605	1,286	748	605	1,285
Bonds, notes and commercial paper	134	82	175	4	6	12
Related entities	10	10	8	256	160	339
Subordinated debt	20	2	24	20	2	24
Other	5	2	6	5	2	6
<b>Total interest expense</b>	<b>917</b>	<b>701</b>	<b>1,499</b>	<b>1,033</b>	<b>775</b>	<b>1,666</b>

The NZ Banking Group has loans and deposits that are subject to set-off agreements as disclosed in note 11. For the reporting period ended 31 March 2005, interest income of \$210 million (31 March 2004: \$211 million; 30 September 2004: \$422 million) and interest expense of \$80 million (31 March 2004: \$81 million; 30 September 2004: \$161 million) has been set-off. This resulted in net interest income of \$130 million (31 March 2004: \$130 million; 30 September 2004: \$261 million) which has been included in interest income from loans. There is no set-off amount in the NZ Bank.

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 04 NON-INTEREST INCOME</b>						
Lending fees (loan and risk)	59	49	103	58	49	103
Net transaction fees and commissions received	130	116	248	126	114	243
Other non-risk fee income	33	33	65	33	33	60
Wealth management income	31	36	71	-	-	-
General insurance commissions and premiums (net of claims)	2	3	6	12	3	25
Trading income:						
Foreign exchange trading	25	28	52	25	28	52
Other trading	19	10	19	19	10	19
Management fees received from related entities	-	-	-	3	11	8
Other	7	15	27	2	-	2
<b>Total non-interest income</b>	<b>306</b>	<b>290</b>	<b>591</b>	<b>278</b>	<b>248</b>	<b>512</b>

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 05 NON-INTEREST EXPENSES</b>						
Amortisation of intangible assets	24	24	47	20	20	39
Auditors' remuneration:						
Audit fees	-	-	1	-	-	1
Other services	-	-	-	-	-	-
Depreciation and amortisation:						
Leasehold improvements	6	6	12	-	-	-
Furniture and fittings	4	4	9	-	-	1
Computer equipment and software	26	23	49	26	23	49
Equipment expenses	3	4	8	2	2	4
Lease and rental expenses	26	26	53	4	5	8
Related entities:						
Subvention payments	-	-	-	61	32	62
Other related entities expenses	3	3	14	43	38	84
Salaries	142	134	275	138	130	267
Other staff expenses	17	16	36	17	16	35
Consultancy fees and other professional services	57	64	126	53	58	114
Communications, advertising and stationery	34	35	69	30	33	67
Other	18	17	32	17	13	30
<b>Total non-interest expenses</b>	<b>360</b>	<b>356</b>	<b>731</b>	<b>411</b>	<b>370</b>	<b>761</b>

For the reporting period ended 31 March 2005, auditors' remuneration included audit fees of \$402,643 (31 March 2004: \$309,000; 30 September 2004: \$707,400) for the NZ Bank including GST of \$44,738 (31 March 2004: \$34,333; 30 September 2004: \$78,600) and \$429,080 (31 March 2004: \$309,000; 30 September 2004: \$733,275) for the NZ Banking Group including GST of \$47,676 (31 March 2004: \$34,333; 30 September 2004: \$81,475). Auditors' remuneration also included fees for other services for the reporting period ended 31 March 2005 of \$172,075 (31 March 2004: \$86,000; 30 September 2004: \$358,869) for the NZ Bank including GST of \$19,119 (31 March 2004: \$9,556; 30 September 2004: \$39,874) and \$445,470 (31 March 2004: \$153,000; 30 September 2004: \$732,364) for the NZ Banking Group including GST of \$49,497 (31 March 2004: \$17,000; 30 September 2004: \$81,374).

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 06 BAD AND DOUBTFUL DEBTS EXPENSE</b>						
Specific provisions	4	10	17	4	10	17
Specific provisions no longer required	(4)	(6)	(10)	(4)	(6)	(10)
General provision	13	2	11	13	2	12
Write-offs direct	17	18	38	15	15	35
Recoveries	(9)	(6)	(17)	(8)	(5)	(15)
<b>Total bad and doubtful debts expense</b>	<b>21</b>	<b>18</b>	<b>39</b>	<b>20</b>	<b>16</b>	<b>39</b>

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 07 INCOME TAX</b>						
<b>INCOME TAX EXPENSE</b>						
Operating profit before income tax expense	483	457	918	265	282	561
Prima facie income tax expense at 33 percent (Deduct)/add income tax effect of:	159	151	303	87	93	185
Exempt dividends	(7)	(10)	(20)	-	-	-
Non-assessable income	(2)	(3)	(5)	-	-	-
Non-deductible expenses	9	8	15	7	7	13
Other items	(1)	(1)	4	(55)	(52)	(92)
<b>Total income tax expense</b>	<b>158</b>	<b>145</b>	<b>297</b>	<b>39</b>	<b>48</b>	<b>106</b>
<i>Comprising:</i>						
Current income tax	148	135	310	25	42	122
Deferred income tax	9	(5)	(17)	11	(1)	(11)
Future income tax benefit	1	15	4	3	7	(5)
<b>Total income tax expense</b>	<b>158</b>	<b>145</b>	<b>297</b>	<b>39</b>	<b>48</b>	<b>106</b>
<b>DEFERRED INCOME TAX</b>						
Balance at beginning of the period	6	23	23	3	14	14
Current period timing differences	9	(5)	(17)	11	(1)	(11)
<b>Balance at end of the period</b>	<b>15</b>	<b>18</b>	<b>6</b>	<b>14</b>	<b>13</b>	<b>3</b>
<b>FUTURE INCOME TAX BENEFIT</b>						
Balance at beginning of the period	115	119	119	104	99	99
Current period timing differences	(1)	(15)	(4)	(3)	(7)	5
<b>Balance at end of the period</b>	<b>114</b>	<b>104</b>	<b>115</b>	<b>101</b>	<b>92</b>	<b>104</b>

The balance of the dividend withholding payment account as at 31 March 2005 was nil (31 March 2004: nil; 30 September 2004: nil) and there was no movement during the reporting period ended 31 March 2005 (31 March 2004: nil; 30 September 2004: nil). Realisation of the income tax benefit is subject to the requirements of the income tax legislation being met.

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 08 IMPUTATION CREDIT ACCOUNT</b>						
Balance at beginning of the period	120	55	55	41	-	-
Imputation credits attached to dividends received during the period	2	2	3	-	-	-
Imputation credits attached to dividends paid during the period	(14)	(13)	(26)	-	-	-
Income tax payments during the period	55	10	88	15	-	41
<b>Balance at end of the period</b>	<b>163</b>	<b>54</b>	<b>120</b>	<b>56</b>	<b>-</b>	<b>41</b>

With effect from 1 April 2004, the NZ Bank has elected to maintain an imputation credit account.

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 09 DUE FROM OTHER FINANCIAL INSTITUTIONS</b>						
At call	113	86	287	112	85	286
Term	40	-	67	40	-	67
<b>Total due from other financial institutions</b>	<b>153</b>	<b>86</b>	<b>354</b>	<b>152</b>	<b>85</b>	<b>353</b>
<b>NOTE 10 TRADING SECURITIES</b>						
Treasury bills	824	731	1,092	824	731	1,092
Certificates of deposit	1,418	1,175	1,147	1,418	1,175	1,147
Commercial paper	261	152	124	261	152	124
New Zealand Government stock	151	206	157	151	206	157
Other trading securities	144	157	133	144	157	133
<b>Total trading securities</b>	<b>2,798</b>	<b>2,421</b>	<b>2,653</b>	<b>2,798</b>	<b>2,421</b>	<b>2,653</b>

As at 31 March 2005, included in trading securities of the NZ Banking Group and NZ Bank were assets of \$568 million encumbered through repurchase agreements (31 March 2004: \$511 million; 30 September 2004: \$154 million).

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 11 LOANS</b>						
Overdrafts	1,187	1,107	1,046	1,187	1,107	1,046
Credit card outstandings	970	886	923	892	801	844
Overnight and at call money market loans	1,352	1,080	1,187	1,352	1,080	1,187
Term loans:						
Housing	20,084	17,433	18,835	19,808	17,033	18,504
Non-housing	10,621	9,169	9,566	10,621	9,157	9,556
Other	4,987	5,551	4,813	799	1,158	625
<b>Total gross loans</b>	<b>39,201</b>	35,226	36,370	<b>34,659</b>	30,336	31,762
Provisions for bad and doubtful debts	(289)	(267)	(277)	(282)	(259)	(270)
<b>Total net loans</b>	<b>38,912</b>	34,959	36,093	<b>34,377</b>	30,077	31,492

Movements in impaired assets and provisions for bad and doubtful debts are outlined in note 12.

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

## Notes to the financial statements

### NZ Banking Group

	Six months ended 31 March 2005			Six months ended 31 March 2004			Year ended 30 September 2004		
	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total
	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Audited \$m	Audited \$m	Audited \$m
<b>NOTE 12 IMPAIRED ASSETS</b>									
Gross impaired assets	50	-	50	65	-	65	58	-	58
Specific provisions	(7)	-	(7)	(7)	-	(7)	(8)	-	(8)
<b>Net impaired assets</b>	<b>43</b>	<b>-</b>	<b>43</b>	<b>58</b>	<b>-</b>	<b>58</b>	<b>50</b>	<b>-</b>	<b>50</b>
<b>GROSS IMPAIRED ASSETS</b>									
Balance at beginning of the period	58	-	58	71	-	71	71	-	71
Additions	10	-	10	186	-	186	221	-	221
Amounts written off	-	-	-	(10)	-	(10)	(14)	-	(14)
Returned to performing or repaid	(18)	-	(18)	(182)	-	(182)	(220)	-	(220)
<b>Balance at end of the period</b>	<b>50</b>	<b>-</b>	<b>50</b>	<b>65</b>	<b>-</b>	<b>65</b>	<b>58</b>	<b>-</b>	<b>58</b>
<b>Interest forgone for the period on the above impaired assets</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>SPECIFIC PROVISIONS</b>									
Balance at beginning of the period	8	-	8	8	-	8	8	-	8
Charge to statement of financial performance	4	-	4	10	-	10	17	-	17
Specific provisions no longer required	(4)	-	(4)	(6)	-	(6)	(10)	-	(10)
Bad debts written off	(1)	-	(1)	(5)	-	(5)	(7)	-	(7)
<b>Balance at end of the period</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>8</b>	<b>-</b>	<b>8</b>
			<b>Six months ended 31 March 2005 Unaudited \$m</b>			<b>Six months ended 31 March 2004 Unaudited \$m</b>			<b>Year ended 30 September 2004 Audited \$m</b>
<b>GENERAL PROVISION</b>									
Balance at beginning of the period			269			258			258
Charge to statement of financial performance			13			2			11
<b>Balance at end of the period</b>			<b>282</b>			<b>260</b>			<b>269</b>
<b>PAST DUE ASSETS</b>									
Balance at beginning of the period			31			197			197
Additions			21			17			37
Deletions			(15)			(180)			(203)
<b>Balance at end of the period</b>			<b>37</b>			<b>34</b>			<b>31</b>
<b>Interest forgone for the period on the above past due assets</b>			<b>-</b>			<b>-</b>			<b>-</b>
<b>OTHER ASSETS UNDER ADMINISTRATION</b>									
Balance at beginning of the period			56			-			-
Additions			1			53			57
Deletions			(55)			-			(1)
<b>Balance at end of the period</b>			<b>2</b>			<b>53</b>			<b>56</b>

## Notes to the financial statements

### NOTE 12 IMPAIRED ASSETS continued

<b>NZ Bank</b>															
	Six months ended 31 March 2005			Six months ended 31 March 2004			Year ended 30 September 2004								
	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total						
	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Audited \$m	Audited \$m	Audited \$m						
Gross impaired assets	47	-	47	61	-	61	55	-	55						
Specific provisions	(7)	-	(7)	(7)	-	(7)	(8)	-	(8)						
<b>Net impaired assets</b>	<b>40</b>	<b>-</b>	<b>40</b>	<b>54</b>	<b>-</b>	<b>54</b>	<b>47</b>	<b>-</b>	<b>47</b>						
<b>GROSS IMPAIRED ASSETS</b>															
Balance at beginning of the period	55	-	55	67	-	67	67	-	67						
Additions	10	-	10	186	-	186	221	-	221						
Amounts written off	-	-	-	(10)	-	(10)	(14)	-	(14)						
Returned to performing or repaid	(18)	-	(18)	(182)	-	(182)	(219)	-	(219)						
<b>Balance at end of the period</b>	<b>47</b>	<b>-</b>	<b>47</b>	<b>61</b>	<b>-</b>	<b>61</b>	<b>55</b>	<b>-</b>	<b>55</b>						
<b>Interest forgone for the period on the above impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>						
<b>SPECIFIC PROVISIONS</b>															
Balance at beginning of the period	8	-	8	8	-	8	8	-	8						
Charge to statement of financial performance	4	-	4	10	-	10	17	-	17						
Specific provisions no longer required	(4)	-	(4)	(6)	-	(6)	(10)	-	(10)						
Bad debts written off	(1)	-	(1)	(5)	-	(5)	(7)	-	(7)						
<b>Balance at end of the period</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>8</b>	<b>-</b>	<b>8</b>						
<table border="0" style="width: 100%;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">Six months ended 31 March 2005 Unaudited \$m</td> <td style="width: 30%;"></td> <td style="text-align: center;">Six months ended 31 March 2004 Unaudited \$m</td> <td style="width: 30%;"></td> <td style="text-align: center;">Year ended 30 September 2004 Audited \$m</td> </tr> </table>											Six months ended 31 March 2005 Unaudited \$m		Six months ended 31 March 2004 Unaudited \$m		Year ended 30 September 2004 Audited \$m
	Six months ended 31 March 2005 Unaudited \$m		Six months ended 31 March 2004 Unaudited \$m		Year ended 30 September 2004 Audited \$m										
<b>GENERAL PROVISION</b>															
Balance at beginning of the period			262		250	250									
Charge to statement of financial performance			13		2	12									
<b>Balance at end of the period</b>			<b>275</b>		<b>252</b>	<b>262</b>									
<b>PAST DUE ASSETS</b>															
Balance at beginning of the period			24		186	186									
Additions			18		15	33									
Deletions			(12)		(175)	(195)									
<b>Balance at end of the period</b>			<b>30</b>		<b>26</b>	<b>24</b>									
<b>Interest forgone for the period on the above past due assets</b>			<b>-</b>		<b>-</b>	<b>-</b>									
<b>OTHER ASSETS UNDER ADMINISTRATION</b>															
Balance at beginning of the period			56		-	-									
Additions			1		53	57									
Deletions			(55)		-	(1)									
<b>Balance at end of the period</b>			<b>2</b>		<b>53</b>	<b>56</b>									

There are no unrecognised impaired assets. Other Assets Under Administration is a new requirement this reporting period. The data to ascertain the opening position is not available. The NZ Banking Group does not have any real estate or other assets acquired through security enforcement.

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
	<b>NOTE 13 INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES</b>					
Interest earning and discount bearing assets	<b>42,715</b>	38,333	39,347	<b>42,944</b>	38,351	39,525
Interest earning and discount bearing liabilities	<b>36,156</b>	31,708	33,039	<b>39,383</b>	34,481	36,076

### NOTE 14 RELATED ENTITIES

#### NZ BANKING GROUP

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, BT Financial Group (NZ) Limited and its subsidiary BT Funds Management (NZ) Limited (funds management company), Westpac Group Investment - NZ - Limited and its subsidiaries and Westpac Financial Services Group - NZ - Limited and its subsidiaries.

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

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Finance company	
Augusta Equities Limited	Finance company	
Westpac Tasman No. 2 Pty Limited	Finance company	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac Capital - NZ - Limited	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
Sfaka Investments Limited	Finance company	
TB Group Trustees Limited	Non-trading company	9 percent owned
Westpac Funds Acceptances - NZ - Limited	Finance company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Two Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
BAK Consolidated Holdings Overseas Partners*	Finance partnership	76 percent owned
Calstock Partners*	Finance partnership	67 percent owned
NZA Overseas Funding*	Finance partnership	76 percent owned
Willowemoc Partners*	Finance partnership	67 percent owned
Westpac Overseas Investments Limited	Finance company	
Hudson Loft Finance LLC*	Finance company	60 percent owned
Westpac Finance Limited	Finance company	
Westpac (NZ) Investments Limited	Property owning and capital funding company	
WestpacTrust Securities NZ Limited	Funding company	
Pacific Structured Funding NZ Limited	Funding company	

\* These subsidiaries represent interests in structured finance arrangements, in which beneficial interests, but no voting rights, are held.



## Notes to the financial statements

### NOTE 14 RELATED ENTITIES continued

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

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

All entities in the NZ Banking Group are 100% owned unless otherwise stated. BAK Consolidated Holdings Overseas Partners, Calstock Partners, NZA Overseas Funding, Willowemoc Partners and Hudson Loft Finance LLC are incorporated in the United States of America. All entities within the NZ Banking Group have a balance date of 30 September and are incorporated in New Zealand, except TBNZ Investments (UK) Limited which is incorporated in the United Kingdom and Westpac Tasman No. 2 Pty Limited which is incorporated in Australia.

Hastings Forestry Investments Limited, a wholly owned subsidiary of a member of the Overseas Banking Group, was incorporated on 14 May 2004.

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

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

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

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

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

### ACQUISITIONS AND DISPOSALS OF RELATED ENTITIES

During the year ended 30 September 2004, Westpac Financial Services Group - NZ - Limited was incorporated in New Zealand as a wholly owned subsidiary of Westpac Financial Services Group Limited (an Australian incorporated subsidiary of the Overseas Bank). This resulted in an increase of \$50 million in ordinary share capital.

Westpac Holdings - NZ - Limited sold four of its subsidiaries to Westpac Financial Services Group - NZ - Limited at fair value. The subsidiaries sold were Westpac Life - NZ - Limited, Westpac Investment Management - NZ - Limited, Westpac Nominees - NZ - Limited and Westpac Superannuation Nominees - NZ - Limited. There was no material impact on the statements of financial position and financial performance of the NZ Banking Group arising from this sale.

During the year ended 30 September 2004, a NZ Banking Group subsidiary, TBNZ Developments Limited, sold First Data Capital, Inc. for \$188 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2004, a NZ Banking Group subsidiary, TBNZ Capital Limited, sold Electric Investment (ANZ) Incorporated for \$189 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2004, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold Bag Inns Limited for \$50 million to a third party. There was no material effect on the statement of financial performance.

Subsequent to the reporting period ended 31 March 2005, a NZ Banking Group subsidiary was amalgamated with its immediate parent company pursuant to Part XIII of the Companies Act 1993. This amalgamation will have no material impact on the statement of financial performance.

Name of Subsidiary	Date of Amalgamation	Continuing Entity
Pacific Structured Funding NZ Limited	18 April 2005	WestpacTrust Securities NZ Limited

## Notes to the financial statements

### **NOTE 14 RELATED ENTITIES continued**

#### **NATURE OF TRANSACTIONS**

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

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

The NZ Bank pays subvention payments to the members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Bank in the reporting period ended 31 March 2005 was \$61 million (31 March 2004: \$32 million; 30 September 2004: \$62 million). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

Life insurance products are sold by the NZ Bank on behalf of other members of the NZ Banking Group. The NZ Bank receives commission from these sales. Commission received in the reporting period ended 31 March 2005 was \$11 million (31 March 2004: \$8 million; 30 September 2004: \$22 million).

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Bank. Management fees paid in the reporting period ended 31 March 2005 were \$3 million (31 March 2004: \$4 million; 30 September 2004: \$8 million). Rental income is paid by the NZ Bank to Westpac (NZ) Investments Limited. The total charge during the reporting period ended 31 March 2005 was \$40 million (31 March 2004: \$34 million; 30 September 2004: \$68 million).

A member of the NZ Banking Group provides funding to the NZ Bank. Management fees are paid by the NZ Bank for these services. Management fees paid in the reporting period ended 31 March 2005 were \$1 million (31 March 2004: nil; 30 September 2004: \$1 million).

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

The NZ Bank guarantees all payment obligations in respect to notes, bonds and commercial paper issued by the NZ Banking Group.

Interest rate and currency swap transactions are entered into with other members of the NZ Banking Group and the Overseas Banking Group in the normal course of business. Management systems and operational controls are in place 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.

A member of the NZ Banking Group has issued redeemable preference shares of \$1,777 million to the NZ Bank. These are classified as investment in related entities in the statement of financial position. Dividends are discretionary and are treated as dividends received in the statement of financial performance. These redeemable preference shares are not entitled to exercise any voting rights except where the dividend payable is in arrears in which case they bear the same voting rights as ordinary shares.

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## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	Cost or valuation \$m	Accumulated depreciation \$m	Book value \$m	Cost or valuation \$m	Accumulated depreciation \$m	Book value \$m
<b>NOTE 15 PROPERTY, PLANT AND EQUIPMENT</b>						
<b>AS AT 31 MARCH 2005 (UNAUDITED)</b>						
Freehold buildings and improvements (at cost)	-	-	-	-	-	-
Leasehold improvements	138	(84)	54	1	(1)	-
Furniture and fittings	104	(79)	25	10	(9)	1
Computer equipment and software	350	(232)	118	348	(230)	118
<b>Total property, plant and equipment</b>	<b>592</b>	<b>(395)</b>	<b>197</b>	<b>359</b>	<b>(240)</b>	<b>119</b>
<b>AS AT 31 MARCH 2004 (UNAUDITED)</b>						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	1	-	1	1	-	1
Leasehold improvements	131	(70)	61	1	-	1
Furniture and fittings	100	(71)	29	10	(8)	2
Computer equipment and software	317	(186)	131	313	(183)	130
<b>Total property, plant and equipment</b>	<b>550</b>	<b>(327)</b>	<b>223</b>	<b>325</b>	<b>(191)</b>	<b>134</b>
<b>AS AT 30 SEPTEMBER 2004 (AUDITED)</b>						
Freehold buildings and improvements (at cost)	1	-	1	-	-	-
Leasehold improvements	134	(77)	57	1	(1)	-
Furniture and fittings	102	(75)	27	10	(9)	1
Computer equipment and software	337	(210)	127	335	(207)	128
<b>Total property, plant and equipment</b>	<b>574</b>	<b>(362)</b>	<b>212</b>	<b>346</b>	<b>(217)</b>	<b>129</b>
	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 16 INTANGIBLE ASSETS</b>						
Gross amount at beginning of the period	936	936	936	783	783	783
Accumulated amortisation at beginning of the period	(372)	(325)	(325)	(306)	(267)	(267)
Amortisation recognised during the period	(24)	(24)	(47)	(20)	(20)	(39)
<b>Balance at end of the period</b>	<b>540</b>	<b>587</b>	<b>564</b>	<b>457</b>	<b>496</b>	<b>477</b>
Comprising:						
Gross amount	936	936	936	783	783	783
Accumulated amortisation	(396)	(349)	(372)	(326)	(287)	(306)
	540	587	564	457	496	477
<b>NOTE 17 OTHER ASSETS</b>						
Accrued interest receivable	212	141	144	108	94	99
Securities purchased under agreements to resell	716	620	158	716	620	158
Securities sold not delivered	57	124	99	57	124	99
Other financial markets assets	880	1,466	987	880	1,451	986
Current income tax receivable	56	48	40	46	17	24
Life insurance assets	66	98	72	-	-	-
Future income tax benefit	114	104	115	101	92	104
Other assets	202	183	192	71	60	73
<b>Total other assets</b>	<b>2,303</b>	<b>2,784</b>	<b>1,807</b>	<b>1,979</b>	<b>2,458</b>	<b>1,543</b>

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 18 DUE TO OTHER FINANCIAL INSTITUTIONS</b>						
At call	347	180	180	347	180	180
Term	636	287	891	636	287	891
<b>Total due to other financial institutions</b>	<b>983</b>	467	1,071	<b>983</b>	467	1,071
<b>NOTE 19 DEPOSITS</b>						
Non-interest bearing <sup>1</sup>	2,018	1,895	1,919	2,018	1,895	1,919
Certificates of deposit	3,345	2,947	3,311	3,345	2,947	3,311
Other interest bearing:						
At call <sup>1</sup>	8,673	8,146	8,224	8,673	8,146	8,224
Term <sup>1</sup>	12,684	11,095	11,871	12,679	11,090	11,866
<b>Total deposits</b>	<b>26,720</b>	24,083	25,325	<b>26,715</b>	24,078	25,320

### DEPOSITS OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

	NZ Banking Group					
	31 March 2005 Total Unaudited \$m	31 March 2005 Weighted average interest rate Unaudited %	31 March 2004 Total Unaudited \$m	31 March 2004 Weighted average interest rate Unaudited %	30 September 2004 Total Audited \$m	30 September 2004 Weighted average interest rate Audited %
<b>DEPOSITS</b>						
One year or less	26,227		23,423		24,783	
Between one and two years	302	6.4	479	6.1	368	5.8
Between two and five years	187	5.9	166	6.1	174	6.4
Over five years	4	-	15	-	-	-
<b>Total deposits</b>	<b>26,720</b>		24,083		25,325	

### DEPOSITS OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank					
	31 March 2005 Total Unaudited \$m	31 March 2005 Weighted average interest rate Unaudited %	31 March 2004 Total Unaudited \$m	31 March 2004 Weighted average interest rate Unaudited %	30 September 2004 Total Audited \$m	30 September 2004 Weighted average interest rate Audited %
<b>DEPOSITS</b>						
One year or less	26,222		23,422		24,778	
Between one and two years	302	6.4	476	6.1	368	5.8
Between two and five years	187	5.9	165	6.1	174	6.4
Over five years	4	-	15	-	-	-
<b>Total deposits</b>	<b>26,715</b>		24,078		25,320	

1. During the reporting period, a number of deposits were reclassified between non-interest bearing and interest bearing and between at call and term. Prior reporting periods have been restated to assist comparability.

## Notes to the financial statements

### NZ Banking Group

	31 March 2005	31 March 2005 Weighted average	31 March 2004	31 March 2004 Weighted average	30 September 2004	30 September 2004 Weighted average
	Total Unaudited \$m	interest rate Unaudited %	Total Unaudited \$m	interest rate Unaudited %	Total Audited \$m	interest rate Audited %

#### NOTE 20 BONDS, NOTES AND COMMERCIAL PAPER

##### BONDS, NOTES AND COMMERCIAL PAPER OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

One year or less	7,517		5,449		5,743	
Between one and two years	1,413	5.3	1,486	1.8	1,196	4.8
Between two and five years	490	6.7	1,597	4.9	833	6.2
<b>Total bonds, notes and commercial paper</b>	<b>9,420</b>		<b>8,532</b>		<b>7,772</b>	

##### BONDS, NOTES AND COMMERCIAL PAPER OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank					
	31 March 2005	31 March 2005 Weighted average	31 March 2004	31 March 2004 Weighted average	30 September 2004	30 September 2004 Weighted average
	Total Unaudited \$m	interest rate Unaudited %	Total Unaudited \$m	interest rate Unaudited %	Total Audited \$m	interest rate Audited %
One year or less	100		97		100	
Between one and two years	-	-	100	6.2	100	6.3
Between two and five years	-	-	-	-	-	-
<b>Total bonds, notes and commercial paper</b>	<b>100</b>		<b>197</b>		<b>200</b>	

#### NOTE 21 OTHER LIABILITIES

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
Accrued interest payable	242	165	197	150	128	147
Securities purchased not delivered	136	98	204	136	98	204
Securities sold short	34	116	30	34	116	30
Securities sold under agreements to repurchase	568	511	154	568	511	154
Other financial markets liabilities	1,874	2,404	1,659	1,874	2,404	1,659
Current income tax payable	76	62	33	-	-	-
Provision for staff benefits	30	28	39	30	27	38
Policyholder liabilities	(2)	-	(1)	-	-	-
Provision for deferred income tax	15	18	6	14	13	3
Claims reserves	8	8	7	-	-	-
Other liabilities	188	192	257	102	152	179
<b>Total other liabilities</b>	<b>3,169</b>	<b>3,602</b>	<b>2,585</b>	<b>2,908</b>	<b>3,449</b>	<b>2,414</b>

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 22 SUBORDINATED DEBT</b>						
Subordinated bonds	-	50	-	-	50	-
Subordinated debentures	741	-	785	741	-	785
<b>Total subordinated debt</b>	<b>741</b>	<b>50</b>	<b>785</b>	<b>741</b>	<b>50</b>	<b>785</b>

### SUBORDINATED BONDS

The subordinated bonds previously on issue had a face value of \$50 million and carried a fixed rate coupon of 7.59%, which applied until 15 July 2004, at which time the NZ Bank redeemed the bonds in accordance with their terms (and following a notice given on 26 May 2004 of its intention to exercise an early repayment option). These bonds were issued at par value.

### SUBORDINATED DEBENTURES

On 5 April 2004, the NZ Bank issued US\$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV. Issue costs of NZ\$9 million have been capitalised as an asset and are being amortised over the period up to the first call date.

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

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

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

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

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 23 CONVERTIBLE DEBENTURES</b>						
Trust Originated Preferred Securities	-	586	-	-	586	-
Westpac Fixed Interest Resetable Trust Securities	715	715	715	715	715	715
Trust Preferred Securities	1,279	1,279	1,279	1,279	1,279	1,279
<b>Total convertible debentures</b>	<b>1,994</b>	<b>2,580</b>	<b>1,994</b>	<b>1,994</b>	<b>2,580</b>	<b>1,994</b>

### TRUST ORIGINATED PREFERRED SECURITIES

In 1999 the NZ Bank issued 8% Junior Subordinated Convertible Debentures to the Chase Manhattan Bank as trustee of Tavarua Funding Trust I ("Funding Trust"). They represented the proceeds (net of issue costs) of approximately US\$322 million of Trust Originated Preferred Securities ("TOPRS<sup>sm</sup>") issued by the Overseas Banking Group in the United States of America.

On 6 May 2004, the Overseas Bank announced that the Board of Directors decided to redeem the TOPRS on 16 July 2004. The redemption, which was approved by APRA, was funded from existing sources and completed on 16 July 2004 as scheduled.

### FIXED INTEREST RESETTABLE TRUST SECURITIES

During the year ended 30 September 2003, the NZ Bank issued Convertible Debentures to Westpac Financial Services Limited as responsible entity (a public company with an Australian financial services license to operate a registered managed investment scheme) of Westpac Second Trust. The investment in convertible debentures was ultimately sourced from the proceeds of approximately A\$655 million (net of issue costs) of Westpac Fixed Interest Resetable Securities ("Westpac FIRsTS") issued by Westpac Funds Management Limited as responsible entity of Westpac First Trust. Both the Westpac First Trust and the Westpac Second Trust are Australian registered managed investment schemes and are members of the Overseas Banking Group.

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

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

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

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

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

## Notes to the financial statements

### NOTE 23 CONVERTIBLE DEBENTURES continued

#### TRUST PREFERRED SECURITIES

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

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

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

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

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

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

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m	Six months ended 31 March 2005 Unaudited \$m	Six months ended 31 March 2004 Unaudited \$m	Year ended 30 September 2004 Audited \$m
<b>NOTE 24 PROPERTY REVALUATION RESERVE</b>						
Balance at beginning of the period	-	1	1	-	-	-
Transfer to retained earnings on sale of property	-	(1)	(1)	-	-	-
<b>Balance at end of the period</b>	-	-	-	-	-	-



## Notes to the financial statements

	<b>NZ Banking Group</b>		
	<b>31 March 2005 Unaudited \$m</b>	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 25 NZ CLASS SHARES</b>			
NZ Class Shares on issue	<b>598</b>	598	598
NZ Class Shares held as Treasury Stock	<b>(20)</b>	-	(19)
<b>Balance at end of the period</b>	<b>578</b>	598	579

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

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

Following a number of buybacks since 2002, as at 31 March 2005, there were 52,569,931 NZ Class Shares on issue (31 March 2004: 53,694,931; 30 September 2004: 52,635,530) with 1,125,000 NZ Class Shares held as Treasury Stock (31 March 2004: nil; 30 September 2004: 1,059,401).

Key features of these shares are:

- each NZ Class Share is entitled to dividends if declared. Any dividends paid on the NZ Class Shares will be the New Zealand dollar equivalent of the dividends paid on the Overseas Bank ordinary shares (adjusted by the exchange fraction, if required);
- NZ Class Shareholder's voting rights in WNZIL are limited to voting on major transactions, changes to the constitution where those changes affect the rights of the shares, and voting on special resolutions to terminate or amend the Exchange or Voting Deeds;
- NZ Class Shares are exchangeable into the Overseas Bank ordinary shares upon the occurrence of certain events. In particular, in the event of liquidation of WNZIL, the NZ Class Shares must be exchanged. Once this exchange occurs, the current holders of the NZ Class Shares are not entitled to participate in the residual net assets of WNZIL in the event of a liquidation; and
- NZ Class Shares held as Treasury Stock have none of the features mentioned above as all their rights and obligations are suspended until they are reissued.

As the NZ Class Shares do not have any entitlement to earnings in priority to ordinary shareholders in WNZIL, earnings of WNZIL are not attributed to the NZ Class Shareholders in the statement of financial performance. Dividends on the NZ Class Shares are accounted for as distributions when declared.

### EXCHANGE EVENT

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

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

As a result, NZ Class Shareholders will receive one ordinary share for each NZ Class Share held. Formal notification of the exchange is expected to be sent to NZ Class Shareholders on 7 July 2005. The Overseas Bank ordinary shares are expected to be allotted on 11 July 2005.

NZ Class Shares are expected to cease trading on the New Zealand Stock Market at close of business on 1 July 2005, to enable the register to be finalised prior to the issue of ordinary shares. NZ Class Shareholders will receive one more imputed dividend on the NZ Class Shares, which will be paid on 1 July 2005. Thereafter, as holders of the Overseas Bank ordinary shares they will be entitled to receive dividends on these shares.

## Notes to the financial statements

### NOTE 25 NZ CLASS SHARES *continued*

#### TREASURY STOCK

On 6 May 2004, WNZIL gave notice that it intended to commence an on-market buy-back of approximately 1 million NZ Class Shares for a period of six months from around 17 May 2004. The WNZIL board approved the buy-back with the intention that the WNZIL buy-back would be proportionally equivalent to the off-market ordinary share buy-back undertaken by the Overseas Bank in June 2004. Final calculations indicated that the percentage of Overseas Bank ordinary shares purchased was slightly higher than anticipated, and as a result on 29 July 2004, WNZIL elected to increase the size of its share buy-back to 1.125 million NZ Class Shares. As at 30 September 2004, WNZIL had acquired 1,059,401 NZ Class Shares for a total amount of \$19 million. The 'on-market' buy-back of NZ Class Shares was completed on 29 November 2004. During the reporting period ended 31 March 2005, 65,599 NZ Class Shares were bought back at an average price of \$19.73 for a total cost of \$1 million. The NZ Class Shares bought back were being held as treasury stock as at 31 March 2005, with all rights and obligations suspended until reissued or cancelled. These shares, representing 2.1% of the NZ Class Shares on issue at the commencement of the buy-back, have been cancelled effective 5th May 2005.

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 26 COMMITMENTS AND CONTINGENT LIABILITIES</b>						
<b>COMMITMENTS FOR CAPITAL EXPENDITURE</b>						
Due within one year	29	21	44	21	17	40
<b>LEASE COMMITMENTS</b> (all leases are classified as operating leases)						
One year or less	32	33	32	32	33	32
Between one and two years	25	26	26	25	26	26
Between two and five years	48	49	49	48	49	49
Over five years	18	28	22	18	28	22
<b>Total lease commitments</b>	<b>123</b>	136	129	<b>123</b>	136	129
<b>CONTINGENT LIABILITIES</b>						
Direct credit substitutes	275	248	372	275	248	372
Transaction related contingent items	587	540	535	587	540	535
Trade related contingent liabilities	639	583	628	639	583	628
<b>Total contingent liabilities</b>	<b>1,501</b>	1,371	1,535	<b>1,501</b>	1,371	1,535

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

#### NEW ZEALAND INLAND REVENUE DEPARTMENT INVESTIGATION

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

Since our original disclosure in the GDS we have continued to maintain the transactions. It is intended that the transactions will be progressively run down over the balance of the year, when changes to the New Zealand tax laws, introduced by the New Zealand Government to address their concerns over the tax effect of transactions of this nature, will come into effect. The NZ Bank remains of the view that the transactions are legitimate and do not constitute tax avoidance. As a consequence of the maintenance of these transactions, additional amounts of tax, from that previously disclosed are likely to be in dispute and potential interest continues to accrue on the core tax if the NZIRD is successful in its challenge.

## Notes to the financial statements

### **NOTE 26 COMMITMENTS AND CONTINGENT LIABILITIES continued**

On 30 September 2004, the NZ Bank received assessments totalling \$18 million (\$25 million with interest) in respect of three transactions for the 1999 tax year. On 31 March 2005, the NZIRD issued further amended tax assessments relating to the 2000 tax year which will impact three structured finance transactions in place in the 1999 year and an additional two structured finance transactions undertaken in the 2000 year only. The maximum potential tax liability reassessed for the 2000 year is \$61 million (with interest this increases to \$85 million). The potential primary tax in dispute for all five of these transactions for the periods up to and including 31 March 2005 is \$220 million (this includes the amounts noted above). With interest this increases to \$290 million (calculated to 31 March 2005).

The NZIRD is also investigating other transactions undertaken by the NZ Bank, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the periods up to and including the reporting period ended 31 March 2005, the overall primary tax in dispute will be approximately \$594 million (this includes the amounts noted above). With interest this increases to approximately \$711 million (calculated to 31 March 2005).

The NZ Bank received independent tax and legal opinions at the time, which confirmed that the transactions complied with New Zealand law. Legal counsel has confirmed that the relevant parts of these opinions remain consistent with New Zealand law.

As previously disclosed, the NZ Bank is confident that the original tax treatment applied by it in all cases is correct. Accordingly, no tax provision has been raised in respect of these matters. The NZ Bank sought a binding ruling from the NZIRD on an initial transaction in 1999 which, following extensive review by the NZIRD, was confirmed in early 2001. The principles underlying that ruling are applicable to, and have been followed in, all subsequent transactions.

### **OTHER CONTINGENT ASSETS AND LIABILITIES**

The New Zealand Commerce Commission is prosecuting the NZ Bank along with five other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 105 charges have been served on the NZ Bank. The charges are to be called in the District Court, but are not expected to be dealt with for some time. The Commerce Commission may also prosecute The Warehouse Financial Services Limited, a member of the NZ Banking Group. As at the date of signing, charges have not been served on The Warehouse Financial Services Limited. Penalties under the Fair Trading Act could include a refund of some or all of the international currency conversion fees collected by the NZ Bank or The Warehouse Financial Services Limited and a fine of up to \$200,000 per charge. The NZ Bank is considering its position in relation to the charges, but at this stage does not consider it necessary to raise a specific provision in its accounts.

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

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

The NZ Bank leases the majority of the properties it occupies. As is normal practice the lease agreements contain "make good" provisions, which require the NZ Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the NZ Bank upon vacation of all leased premises subject to these provisions is estimated to be \$14 million. The NZ Bank believes that it is highly unlikely it would incur a material operating loss as a result of this in the normal course of its business operations.

The NZ Banking Group has a contingent asset in respect of \$2 million (31 March 2004: \$16 million; 30 September 2004: \$7 million) contributed to various funds managed by its wealth management subsidiaries. During the reporting period ended 31 March 2005, a sum of \$5 million was returned to the NZ Banking Group and was recognised in other non-interest income (31 March 2004: \$11 million; 30 September 2004: \$20 million). No portion of this repayment is included in other assets as at 31 March 2005 (31 March 2004: nil; 30 September 2004: \$6 million). The repayment of the remaining sum is dependent on the future performance of these funds.

## Notes to the financial statements

### **NOTE 26 COMMITMENTS AND CONTINGENT LIABILITIES continued**

#### **OTHER COMMITMENTS**

As at 31 March 2005, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business as detailed in note 27. The NZ Banking Group has management systems and operational controls in place to manage interest rate risk and currency risk as outlined in note 2. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

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### **NOTE 27 CREDIT RISK**

#### **RISK WEIGHTED EXPOSURES**

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

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

While securitised mortgages are excluded from the statement of financial position, they are included in the New Zealand risk adjusted exposures as required by the Framework.

The current exposure method has been used to calculate the credit equivalent of market related contracts with the exception of the following transactions where the carrying amount has been used:

- a debt/equity swap undertaken between Westpac (NZ) Investments Limited ("WNZIL") and the NZ Bank in which WNZIL will receive payments based on the dividend paid on the Overseas Bank ordinary shares. The purpose of this swap is to enable WNZIL to derive an income stream equivalent to the dividend payable on the NZ Class Shares; and
- a cross currency swap and an interest rate swap undertaken between the NZ Bank and the Overseas Bank under which the NZ Bank has agreed to pay the Overseas Bank United States dollars using a fixed exchange rate in exchange for the New Zealand dollar distributions and redemption payments on the convertible debentures issued to the Tavarua Funding Trust I.

# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

NZ Banking Group  
31 March 2005 – Unaudited

### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal amount \$m	Risk weighting	Risk weighted exposure \$m
Cash	128	0%	-
Short term claims on government	1,555	0%	-
Long term claims on government	184	10%	18
Claims on banks	5,832	20%	1,166
Claims on public sector entities	197	20%	39
Residential mortgages	20,130	50%	10,065
Other assets	17,338	100%	17,338
Non-risk weighted assets	1,420		-
<b>Total on-balance sheet exposures</b>	<b>46,784</b>		<b>28,626</b>

### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitised mortgages	726	50%	363
<b>Total securitised mortgage exposures</b>	<b>726</b>		<b>363</b>

### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	275	100%	275	100%	275
<b>Total direct credit substitutes</b>	<b>275</b>		<b>275</b>		<b>275</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	29	100%	29	100%	29
Housing loan commitments with certain drawdown	73	100%	73	50%	37
Transaction related contingent items	587	50%	294	100%	294
Short term, self liquidating trade related contingent liabilities	639	20%	128	100%	128
Other commitments to provide financial services which have an original maturity of one year or more	6,201	50%	3,101	100%	3,101
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>12,563</b>		<b>3,625</b>		<b>3,589</b>

### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	32,522		848	25%	216
Options	215		3	33%	1
Swaps	12,930		783	29%	228
Interest rate contracts:					
Forwards	5,367		2	50%	1
Futures	9,237		-	0%	-
Options	5,941		9	44%	4
Swaps	96,429		995	33%	331
<b>Total market related contracts (derivatives)</b>	<b>162,641</b>		<b>2,640</b>		<b>781</b>
<b>Total off-balance sheet exposures</b>	<b>175,479</b>		<b>6,540</b>		<b>4,645</b>
<b>Total risk weighted exposures</b>					<b>33,634</b>

# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

**NZ Banking Group**  
31 March 2004 - Unaudited

### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal amount \$m	Risk weighting	Risk weighted exposure \$m
Cash	107	0%	-
Short term claims on government	1,539	0%	-
Long term claims on government	148	10%	15
Claims on banks	5,547	20%	1,109
Claims on public sector entities	197	20%	39
Residential mortgages	17,487	50%	8,744
Other assets	15,270	100%	15,270
Non-risk weighted assets	2,053		-
<b>Total on-balance sheet exposures</b>	<b>42,348</b>		<b>25,177</b>

### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitised mortgages	810	50%	405
<b>Total securitised mortgage exposures</b>	<b>810</b>		<b>405</b>

### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	248	100%	248	100%	248
<b>Total direct credit substitutes</b>	<b>248</b>		<b>248</b>		<b>248</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	21	100%	21	100%	21
Housing loan commitments with certain drawdown	34	100%	34	50%	17
Transaction related contingent items	540	50%	270	100%	270
Short term, self liquidating trade related contingent liabilities	583	20%	117	100%	117
Other commitments to provide financial services which have an original maturity of one year or more	4,965	50%	2,483	100%	2,483
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>11,177</b>		<b>2,925</b>		<b>2,908</b>

### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	32,337		928	25%	233
Options	20		1	0%	-
Swaps	18,349		1,726	23%	398
Interest rate contracts:					
Forwards	12,223		3	33%	1
Futures	3,193		-	0%	-
Options	2,816		1	100%	1
Swaps	78,579		911	31%	282
<b>Total market related contracts (derivatives)</b>	<b>147,517</b>		<b>3,570</b>		<b>915</b>
<b>Total off-balance sheet exposures</b>	<b>158,942</b>		<b>6,743</b>		<b>4,071</b>
<b>Total risk weighted exposures</b>					<b>29,653</b>

# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

**NZ Banking Group**  
30 September 2004 – Audited

### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal amount \$m	Risk weighting	Risk weighted exposure \$m
Cash	101	0%	-
Short term claims on government	1,418	0%	-
Long term claims on government	100	10%	10
Claims on banks	4,589	20%	918
Claims on public sector entities	189	20%	38
Residential mortgages	18,888	50%	9,444
Other assets	15,698	100%	15,698
Non-risk weighted assets	1,551		-
<b>Total on-balance sheet exposures</b>	<b>42,534</b>		<b>26,108</b>

### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitised mortgages	757	50%	379
<b>Total securitised mortgage exposures</b>	<b>757</b>		<b>379</b>

### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
<b>Total direct credit substitutes</b>	<b>372</b>		<b>372</b>		<b>372</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	44	100%	44	100%	44
Housing loan commitments with certain drawdown	49	100%	49	50%	25
Transaction related contingent items	535	50%	268	100%	268
Short term, self liquidating trade related contingent liabilities	628	20%	126	100%	126
Other commitments to provide financial services which have an original maturity of one year or more	5,205	50%	2,603	100%	2,603
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,675	0%	-	0%	-
<b>Total commitments</b>	<b>12,136</b>		<b>3,090</b>		<b>3,066</b>

### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	26,931		665	26%	174
Options	107		1	0%	-
Swaps	16,798		1,304	25%	332
Interest rate contracts:					
Forwards	11,673		8	50%	4
Futures	5,258		-	0%	-
Options	3,503		8	50%	4
Swaps	79,923		727	30%	221
<b>Total market related contracts (derivatives)</b>	<b>144,193</b>		<b>2,713</b>		<b>735</b>
<b>Total off-balance sheet exposures</b>	<b>156,701</b>		<b>6,175</b>		<b>4,173</b>
<b>Total risk weighted exposures</b>					<b>30,660</b>

# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

NZ Bank  
31 March 2005 – Unaudited

CALCULATION OF ON-BALANCE SHEET EXPOSURES	Principal amount \$m	Risk weighting	Risk weighted exposure \$m		
Cash	128	0%	-		
Short term claims on government	1,542	0%	-		
Long term claims on government	184	10%	18		
Claims on banks	1,602	20%	320		
Claims on public sector entities	197	20%	39		
Residential mortgages	19,853	50%	9,927		
Other assets	22,891	100%	22,891		
Non-risk weighted assets	1,337		-		
<b>Total on-balance sheet exposures</b>	<b>47,734</b>		<b>33,195</b>		
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitised mortgages	726	50%	363		
<b>Total securitised mortgage exposures</b>	<b>726</b>		<b>363</b>		
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>					
	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	275	100%	275	100%	275
<b>Total direct credit substitutes</b>	<b>275</b>		<b>275</b>		<b>275</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	21	100%	21	100%	21
Housing loan commitments with certain drawdown	73	100%	73	50%	37
Transaction related contingent items	587	50%	294	100%	294
Short term, self liquidating trade related contingent liabilities	639	20%	128	100%	128
Other commitments to provide financial services which have an original maturity of one year or more	6,201	50%	3,101	100%	3,101
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>12,555</b>		<b>3,617</b>		<b>3,581</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	32,522		848	25%	216
Options	215		3	33%	1
Swaps	12,930		783	29%	228
Interest rate contracts:					
Forwards	5,367		2	50%	1
Futures	9,237		-	0%	-
Options	5,941		9	44%	4
Swaps	96,429		995	33%	331
<b>Total market related contracts (derivatives)</b>	<b>162,641</b>		<b>2,640</b>		<b>781</b>
<b>Total off-balance sheet exposures</b>	<b>175,471</b>		<b>6,532</b>		<b>4,637</b>
<b>Total risk weighted exposures</b>					<b>38,195</b>



# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

**NZ Bank**  
31 March 2004 - Unaudited

<b>CALCULATION OF ON-BALANCE SHEET EXPOSURES</b>	Principal amount \$m	Risk weighting	Risk weighted exposure \$m		
Cash	107	0%	-		
Short term claims on government	1,537	0%	-		
Long term claims on government	144	10%	14		
Claims on banks	1,329	20%	266		
Claims on public sector entities	197	20%	39		
Residential mortgages	17,086	50%	8,543		
Other assets	20,771	100%	20,771		
Non-risk weighted assets	1,947		-		
<b>Total on-balance sheet exposures</b>	<b>43,118</b>		<b>29,633</b>		
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitised mortgages	810	50%	405		
<b>Total securitised mortgage exposures</b>	<b>810</b>		<b>405</b>		
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>					
	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	248	100%	248	100%	248
<b>Total direct credit substitutes</b>	<b>248</b>		<b>248</b>		<b>248</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	17	100%	17	100%	17
Housing loan commitments with certain drawdown	34	100%	34	50%	17
Transaction related contingent items	540	50%	270	100%	270
Short term, self liquidating trade related contingent liabilities	583	20%	117	100%	117
Other commitments to provide financial services which have an original maturity of one year or more	4,965	50%	2,483	100%	2,483
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>11,173</b>		<b>2,921</b>		<b>2,904</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	32,337		928	25%	233
Options	20		-	0%	-
Swaps	18,349		1,726	23%	398
Interest rate contracts:					
Forwards	12,223		4	25%	1
Futures	3,193		-	0%	-
Options	2,816		2	50%	1
Swaps	79,410		920	31%	287
<b>Total market related contracts (derivatives)</b>	<b>148,348</b>		<b>3,580</b>		<b>920</b>
<b>Total off-balance sheet exposures</b>	<b>159,769</b>		<b>6,749</b>		<b>4,072</b>
<b>Total risk weighted exposures</b>					<b>34,110</b>

# Notes to the financial statements

## NOTE 27 CREDIT RISK continued

**NZ Bank**  
30 September 2004 – Audited

<b>CALCULATION OF ON-BALANCE SHEET EXPOSURES</b>	Principal amount \$m	Risk weighting	Risk weighted exposure \$m		
Cash	101	0%	-		
Short term claims on government	1,399	0%	-		
Long term claims on government	100	10%	10		
Claims on banks	353	20%	71		
Claims on public sector entities	189	20%	38		
Residential mortgages	18,556	50%	9,278		
Other assets	21,296	100%	21,296		
Non-risk weighted assets	1,463		-		
<b>Total on-balance sheet exposures</b>	<b>43,457</b>		<b>30,693</b>		
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitised mortgages	757	50%	379		
<b>Total securitised mortgage exposures</b>	<b>757</b>		<b>379</b>		
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>					
	Principal amount \$m	Credit conversion factor	Credit equivalent amount \$m	Average counterparty risk weighting	Risk weighted exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
<b>Total direct credit substitutes</b>	<b>372</b>		<b>372</b>		<b>372</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	40	100%	40	100%	40
Housing loan commitments with certain drawdown	49	100%	49	50%	25
Transaction related contingent items	535	50%	268	100%	268
Short term, self liquidating trade related contingent liabilities	628	20%	126	100%	126
Other commitments to provide financial services which have an original maturity of one year or more	5,205	50%	2,603	100%	2,603
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,675	0%	-	0%	-
<b>Total commitments</b>	<b>12,132</b>		<b>3,086</b>		<b>3,062</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	26,931		665	26%	174
Options	107		1	0%	-
Swaps	16,798		1,304	25%	332
Interest rate contracts:					
Forwards	11,673		8	50%	4
Futures	5,258		-	0%	-
Options	3,503		8	50%	4
Swaps	80,556		735	31%	225
<b>Total market related contracts (derivatives)</b>	<b>144,826</b>		<b>2,721</b>		<b>739</b>
<b>Total off-balance sheet exposures</b>	<b>157,330</b>		<b>6,179</b>		<b>4,173</b>
<b>Total risk weighted exposures</b>					<b>35,245</b>

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 28 CONCENTRATION OF CREDIT EXPOSURES</b>						
<b>ON-BALANCE SHEET CREDIT EXPOSURES CONSIST OF:</b>						
Cash	128	107	101	128	107	101
Due from other financial institutions	153	86	354	152	85	353
Trading securities	2,798	2,421	2,653	2,798	2,421	2,653
Loans	38,912	34,959	36,093	34,377	30,077	31,492
Due from related entities	1,753	1,181	750	5,947	5,563	4,932
Other assets	2,189	2,680	1,692	1,878	2,366	1,439
<b>Total on-balance sheet credit exposures</b>	<b>45,933</b>	41,434	41,643	<b>45,280</b>	40,619	40,970
<b>ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY GEOGRAPHICAL AREAS:</b>						
Within New Zealand	39,870	35,666	36,412	44,050	39,890	40,572
Australia and Asia-Pacific	1,875	1,313	1,001	1,230	668	356
United Kingdom and Europe	-	61	42	-	61	42
North America	4,188	4,394	4,188	-	-	-
<b>Total on-balance sheet credit exposures</b>	<b>45,933</b>	41,434	41,643	<b>45,280</b>	40,619	40,970
<b>ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	1,582	1,607	1,857	1,582	1,607	1,857
Agriculture	2,540	2,299	2,618	2,540	2,297	2,618
Other primary industries	307	303	420	307	316	420
Commercial and financial	17,098	16,555	15,099	12,735	11,961	10,780
Real estate – construction	468	322	301	468	309	290
Real estate – mortgage	20,333	17,519	18,901	20,095	17,160	18,610
Instalment loans and other personal lending	1,932	1,725	1,774	1,810	1,598	1,652
<b>Subtotal</b>	<b>44,260</b>	40,330	40,970	<b>39,537</b>	35,248	36,227
General provision	(282)	(260)	(269)	(275)	(252)	(262)
Due from related entities	1,753	1,181	750	5,947	5,563	4,932
Other assets	202	183	192	71	60	73
<b>Total on-balance sheet credit exposures</b>	<b>45,933</b>	41,434	41,643	<b>45,280</b>	40,619	40,970
<b>OFF-BALANCE SHEET CREDIT EXPOSURES BY CREDIT EQUIVALENT CONSIST OF:</b>						
Contingent liabilities and commitments	3,900	3,173	3,462	3,892	3,169	3,458
Derivatives	2,640	3,570	2,713	2,640	3,580	2,721
<b>Total off-balance sheet credit exposures by credit equivalent</b>	<b>6,540</b>	6,743	6,175	<b>6,532</b>	6,749	6,179
<b>ANALYSIS OF OFF-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	126	124	125	126	120	125
Agriculture	30	48	28	30	48	28
Other primary industries	15	13	15	15	13	15
Commercial and financial	4,508	4,928	4,211	4,500	4,938	4,215
Real estate – construction	59	87	79	59	87	79
Real estate – mortgage	1,794	1,535	1,709	1,794	1,535	1,709
Instalment loans and other personal lending	8	8	8	8	8	8
<b>Total off-balance sheet credit exposures by credit equivalent</b>	<b>6,540</b>	6,743	6,175	<b>6,532</b>	6,749	6,179

Credit exposure is determined with reference to actual credit exposures.

## Notes to the financial statements

### NOTE 28 CONCENTRATION OF CREDIT EXPOSURES *continued*

#### ANALYSIS OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

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

##### Individual Counterparties

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2005	31 March 2005	As at 31 March 2004	31 March 2004	As at 30 September 2004	30 September 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-

##### Closely Related Counterparties

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2005	31 March 2005	As at 31 March 2004	31 March 2004	As at 30 September 2004	30 September 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Bank counterparties	1	1	1	1	1	1
Non-bank counterparties	-	-	-	-	-	-

The peak end-of-day exposure and as at exposures have been calculated using the Overseas Banking Group's equity as at 31 March 2005. The equity used in the 31 March 2004 comparatives was as at 31 March 2004. The equity used in the 30 September 2004 comparatives was as at 30 September 2004. Credit exposure used in the above calculations is determined with reference to actual credit exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to those counterparties if they are recorded outside New Zealand nor exposures to any OECD government. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of specific provisions.

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

##### Individual Counterparties

	Percentage of Overseas Banking Group's equity		Percentage of Overseas Banking Group's equity		Percentage of Overseas Banking Group's equity	
	As at 31 March 2005	31 March 2005	As at 31 March 2004	31 March 2004	As at 30 September 2004	30 September 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-

##### Closely Related Counterparties

	Percentage of Overseas Banking Group's equity		Percentage of Overseas Banking Group's equity		Percentage of Overseas Banking Group's equity	
	As at 31 March 2005	31 March 2005	As at 31 March 2004	31 March 2004	As at 30 September 2004	30 September 2004
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Credit rating of BBB- and above	2,000	11.3	2,000	11.1	2,000	11.5
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-

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

## Notes to the financial statements

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>NOTE 29 CONCENTRATION OF FUNDING</b>						
<b>FUNDING CONSISTS OF:</b>						
Due to other financial institutions	983	467	1,071	983	467	1,071
Deposits	26,720	24,083	25,325	26,715	24,078	25,320
Bonds, notes and commercial paper <sup>1</sup>	9,420	8,532	7,772	100	197	200
Due to related entities	1,081	780	569	13,690	12,009	11,243
Subordinated debt	741	50	785	741	50	785
<b>Total funding</b>	<b>38,945</b>	<b>33,912</b>	<b>35,522</b>	<b>42,229</b>	<b>36,801</b>	<b>38,619</b>
<b>ANALYSIS OF FUNDING BY PRODUCT:</b>						
Saving accounts	1,208	1,283	1,238	1,208	1,283	1,238
Certificates of deposits	3,345	2,947	3,311	3,345	2,947	3,311
Demand deposits	7,399	7,520	7,849	7,399	7,520	7,849
Other deposits and borrowings	24,188	20,865	20,699	14,863	12,525	13,122
Subordinated debt	741	50	785	741	50	785
<b>Subtotal</b>	<b>36,881</b>	<b>32,665</b>	<b>33,882</b>	<b>27,556</b>	<b>24,325</b>	<b>26,305</b>
Due to other financial institutions	983	467	1,071	983	467	1,071
Due to related entities	1,081	780	569	13,690	12,009	11,243
<b>Total funding</b>	<b>38,945</b>	<b>33,912</b>	<b>35,522</b>	<b>42,229</b>	<b>36,801</b>	<b>38,619</b>
<b>ANALYSIS OF FUNDING BY GEOGRAPHICAL AREAS<sup>1</sup>:</b>						
New Zealand	27,222	24,097	26,013	39,656	35,322	36,512
Australia and Asia-Pacific	1,831	1,420	1,322	1,832	1,418	1,322
United Kingdom and Europe	3,626	3,451	3,075	-	61	-
North America	6,266	4,944	5,112	741	-	785
<b>Total funding</b>	<b>38,945</b>	<b>33,912</b>	<b>35,522</b>	<b>42,229</b>	<b>36,801</b>	<b>38,619</b>
<b>ANALYSIS OF FUNDING BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	1,514	1,211	1,367	1,514	1,211	1,367
Agriculture	811	365	709	811	365	709
Other primary industries	154	141	202	154	141	202
Commercial and financial	21,670	17,098	18,722	12,345	8,759	11,145
Households	13,715	14,317	13,953	13,715	14,316	13,953
<b>Subtotal</b>	<b>37,864</b>	<b>33,132</b>	<b>34,953</b>	<b>28,539</b>	<b>24,792</b>	<b>27,376</b>
Due to related entities	1,081	780	569	13,690	12,009	11,243
<b>Total funding</b>	<b>38,945</b>	<b>33,912</b>	<b>35,522</b>	<b>42,229</b>	<b>36,801</b>	<b>38,619</b>

1. The geographic region used for bonds, notes and commercial paper is the location of the original purchaser. These instruments may have subsequently been on-sold.

## NOTE 30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value estimates were determined by application of the methods and assumptions described on the following page.

## Notes to the financial statements

### **NOTE 30 FAIR VALUE OF FINANCIAL INSTRUMENTS continued**

#### **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 statement of financial position under “other assets” and “other liabilities”, the carrying amount is equivalent to the fair value.

#### **FLOATING RATE FINANCIAL INSTRUMENTS**

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

#### **TRADING SECURITIES**

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

#### **DUE FROM OTHER FINANCIAL INSTITUTIONS AND FIXED RATE LOANS**

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

#### **IMPAIRED ASSETS**

For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

#### **DEPOSITS, BONDS, NOTES, COMMERCIAL PAPER, BILLS PAYABLE AND DUE TO OTHER FINANCIAL INSTITUTIONS**

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

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

#### **COMMITMENTS TO EXTEND CREDIT, FINANCIAL GUARANTEES, PERFORMANCE BONDS AND LETTERS OF CREDIT**

For commitments, financial guarantees, performance bonds and letters of credit, no fair values have been ascribed on the basis that these financial instruments generate ongoing fees at the NZ Banking Group’s current pricing levels.

#### **EXCHANGE RATE AND INTEREST RATE CONTRACTS**

For exchange rate and interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The carrying amount and fair value for these contracts are included in “other assets” or “other liabilities” as applicable. Where the fair value cannot be reliably estimated, the carrying amount is reported as the fair value amount. The NZ Banking Group has the following transactions where fair values cannot be reliably estimated:

- a debt/equity swap undertaken between Westpac (NZ) Investments Limited (“WNZIL”) and the NZ Bank in which WNZIL will receive payments based on the dividend paid on the Overseas Bank ordinary shares. The purpose of this swap is to enable WNZIL to derive an income stream equivalent to the dividend payable on the NZ Class Shares; and
- a cross currency swap and an interest rate swap undertaken between the NZ Bank and the Overseas Bank under which the NZ Bank has agreed to pay the Overseas Bank United States dollars using a fixed exchange rate in exchange for the New Zealand dollar distributions and redemption payments on the convertible debentures issued to the Tavarua Funding Trust I.

#### **SUBORDINATED DEBT**

For subordinated debt, the fair values are based on quoted market prices.

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## Notes to the financial statements

### NOTE 30 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	<b>NZ Banking Group</b>					
	<b>31 March 2005</b>	<b>31 March 2005</b>	31 March 2004	31 March 2004	30 September 2004	30 September 2004
	<b>Carrying amount Unaudited \$m</b>	<b>Estimated fair value Unaudited \$m</b>	Carrying amount Unaudited \$m	Estimated fair value Unaudited \$m	Carrying amount Audited \$m	Estimated fair value Audited \$m
<b>FINANCIAL ASSETS</b>						
Cash	128	128	107	107	101	101
Due from other financial institutions	153	153	86	86	354	354
Trading securities	2,798	2,798	2,421	2,421	2,653	2,653
Loans	38,912	38,877	34,959	34,889	36,093	35,923
Due from related entities	1,753	1,753	1,181	1,181	750	750
Other assets	2,133	2,153	2,632	2,632	1,652	1,879
<b>Total financial assets</b>	<b>45,877</b>	<b>45,862</b>	41,386	41,316	41,603	41,660
Non-financial assets	907		962		931	
<b>Total assets</b>	<b>46,784</b>		42,348		42,534	
<b>FINANCIAL LIABILITIES</b>						
Due to other financial institutions	983	983	467	467	1,071	1,071
Deposits	26,720	26,745	24,083	24,123	25,325	25,334
Bonds, notes and commercial paper	9,420	9,419	8,532	8,533	7,772	7,775
Due to related entities	1,081	1,081	780	780	569	569
Other liabilities	3,040	3,040	3,486	3,486	2,500	2,500
Subordinated debt	741	741	50	50	785	785
<b>Total financial liabilities</b>	<b>41,985</b>	<b>42,009</b>	37,398	37,439	38,022	38,034
Non-financial liabilities	129		116		85	
<b>Total liabilities</b>	<b>42,114</b>		37,514		38,107	
<b>NZ Bank</b>						
<b>FINANCIAL ASSETS</b>						
Cash	128	128	107	107	101	101
Due from other financial institutions	152	152	85	85	353	353
Trading securities	2,798	2,798	2,421	2,421	2,653	2,653
Loans	34,377	34,342	30,077	30,012	31,492	31,323
Due from related entities	5,947	5,947	5,563	5,563	4,932	4,932
Other assets	1,832	1,860	2,366	2,365	1,439	1,664
<b>Total financial assets</b>	<b>45,234</b>	<b>45,227</b>	40,619	40,553	40,970	41,026
Non-financial assets	2,500		2,499		2,487	
<b>Total assets</b>	<b>47,734</b>		43,118		43,457	
<b>FINANCIAL LIABILITIES</b>						
Due to other financial institutions	983	983	467	467	1,071	1,071
Deposits	26,715	26,740	24,078	24,118	25,320	25,329
Bonds, notes and commercial paper	100	98	197	199	200	199
Due to related entities	13,690	13,692	12,009	12,008	11,243	11,247
Other liabilities	2,864	2,864	3,409	3,409	2,373	2,373
Subordinated debt	741	741	50	50	785	785
<b>Total financial liabilities</b>	<b>45,093</b>	<b>45,118</b>	40,210	40,251	40,992	41,004
Non-financial liabilities	44		40		41	
<b>Total liabilities</b>	<b>45,137</b>		40,250		41,033	

## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK

The interest rate repricing analysis below is based on contractual repricing dates. The NZ Banking Group manages interest rate risk taking into account both contractual and behavioural repricing. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in note 2.

The effective interest rates and interest repricing of financial instruments as at balance date are as follows:

<b>NZ Banking Group</b>								
<b>31 March 2005 – Unaudited</b>								
	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	128	128	-
Due from other financial institutions	40	-	-	-	-	113	153	6.8
Trading securities	2,720	-	-	-	-	78	2,798	6.5
Loans	16,365	4,541	7,543	10,684	68	(289)	38,912	8.4
Due from related entities	33	-	-	-	-	1,720	1,753	6.8
Other assets	721	-	-	-	-	1,412	2,133	6.5
<b>Total financial assets</b>	<b>19,879</b>	<b>4,541</b>	<b>7,543</b>	<b>10,684</b>	<b>68</b>	<b>3,162</b>	<b>45,877</b>	
Non-financial assets							907	
<b>Total assets</b>							<b>46,784</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	636	-	-	-	-	347	983	6.8
Deposits	9,491	11,144	3,578	485	4	2,018	26,720	6.1
Bonds, notes and commercial paper	1,598	5,233	2,464	125	-	-	9,420	3.4
Due to related entities	58	-	-	-	-	1,023	1,081	6.8
Other liabilities	599	-	-	-	-	2,441	3,040	6.3
Subordinated debt	-	-	-	-	741	-	741	5.3
<b>Total financial liabilities</b>	<b>12,382</b>	<b>16,377</b>	<b>6,042</b>	<b>610</b>	<b>745</b>	<b>5,829</b>	<b>41,985</b>	
Non-financial liabilities							129	
<b>Total liabilities</b>							<b>42,114</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	5,138	9,676	(8,251)	(7,304)	741	-	-	

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



## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK *continued*

**NZ Banking Group**  
31 March 2004 – Unaudited

	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	107	107	-
Due from other financial institutions	17	-	-	-	-	69	86	5.2
Trading securities	2,447	-	-	-	-	(26)	2,421	5.2
Loans	21,325	2,698	3,807	7,355	41	(267)	34,959	7.8
Due from related entities	23	-	-	-	-	1,158	1,181	5.2
Other assets	620	-	-	-	-	2,012	2,632	5.2
<b>Total financial assets</b>	<b>24,432</b>	<b>2,698</b>	<b>3,807</b>	<b>7,355</b>	<b>41</b>	<b>3,053</b>	<b>41,386</b>	
Non-financial assets							962	
<b>Total assets</b>							<b>42,348</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	287	-	-	-	-	180	467	5.3
Deposits	20,372	1,156	479	166	15	1,895	24,083	4.7
Bonds, notes and commercial paper	1,155	3,356	938	3,083	-	-	8,532	2.1
Due to related entities	24	-	-	-	-	756	780	0.2
Other liabilities	627	-	-	-	-	2,859	3,486	5.1
Subordinated debt	-	-	50	-	-	-	50	7.5
<b>Total financial liabilities</b>	<b>22,465</b>	<b>4,512</b>	<b>1,467</b>	<b>3,249</b>	<b>15</b>	<b>5,690</b>	<b>37,398</b>	
Non-financial liabilities							116	
<b>Total liabilities</b>							<b>37,514</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	5,658	2,916	(3,474)	(5,603)	503	-	-	

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

## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK *continued*

**NZ Banking Group**  
30 September 2004 – Audited

	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	101	101	-
Due from other financial institutions	265	-	-	-	-	89	354	6.3
Trading securities	2,548	-	-	-	-	105	2,653	6.4
Loans	16,270	3,613	5,157	11,318	12	(277)	36,093	7.9
Due from related entities	6	-	-	-	-	744	750	6.3
Other assets	158	-	-	-	-	1,494	1,652	5.5
<b>Total financial assets</b>	<b>19,247</b>	<b>3,613</b>	<b>5,157</b>	<b>11,318</b>	<b>12</b>	<b>2,256</b>	<b>41,603</b>	
Non-financial assets							931	
<b>Total assets</b>							<b>42,534</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	13,651	5,793	3,420	542	-	1,919	25,325	4.4
Bonds, notes and commercial paper	1,474	4,047	1,626	625	-	-	7,772	2.7
Due to related entities	1	-	-	-	-	568	569	6.3
Other liabilities	184	-	-	-	-	2,316	2,500	6.2
Subordinated debt	-	-	-	-	785	-	785	5.3
<b>Total financial liabilities</b>	<b>16,201</b>	<b>9,840</b>	<b>5,046</b>	<b>1,167</b>	<b>785</b>	<b>4,983</b>	<b>38,022</b>	
Non-financial liabilities							85	
<b>Total liabilities</b>							<b>38,107</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	6,869	(1,333)	(2,951)	(3,283)	698	-	-	

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

## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK continued

#### NZ Bank 31 March 2005 – Unaudited

	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	128	128	-
Due from other financial institutions	40	-	-	-	-	112	152	6.8
Trading securities	2,720	-	-	-	-	78	2,798	6.5
Loans	16,076	4,532	4,648	9,335	68	(282)	34,377	8.3
Due from related entities	32	-	-	-	4,772	1,143	5,947	6.8
Other assets	721	-	-	-	-	1,111	1,832	6.5
<b>Total financial assets</b>	<b>19,589</b>	<b>4,532</b>	<b>4,648</b>	<b>9,335</b>	<b>4,840</b>	<b>2,290</b>	<b>45,234</b>	
Non-financial assets							2,500	
<b>Total assets</b>							<b>47,734</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	636	-	-	-	-	347	983	6.8
Deposits	9,486	11,144	3,578	485	4	2,018	26,715	6.1
Bonds, notes and commercial paper	100	-	-	-	-	-	100	6.3
Due to related entities	4,788	5,233	2,464	125	-	1,080	13,690	4.3
Other liabilities	599	-	-	-	-	2,265	2,864	6.3
Subordinated debt	-	-	-	-	741	-	741	5.3
<b>Total financial liabilities</b>	<b>15,609</b>	<b>16,377</b>	<b>6,042</b>	<b>610</b>	<b>745</b>	<b>5,710</b>	<b>45,093</b>	
Non-financial liabilities							44	
<b>Total liabilities</b>							<b>45,137</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	5,138	10,305	(8,251)	(7,933)	741	-	-	

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

## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK *continued*

**NZ Bank**  
31 March 2004 – Unaudited

	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	107	107	-
Due from other financial institutions	16	-	-	-	-	69	85	5.2
Trading securities	2,447	-	-	-	-	(26)	2,421	5.2
Loans	20,668	2,649	3,798	3,180	41	(259)	30,077	7.7
Due from related entities	321	-	-	4,611	-	631	5,563	4.4
Other assets	620	-	-	-	-	1,746	2,366	5.2
<b>Total financial assets</b>	<b>24,072</b>	<b>2,649</b>	<b>3,798</b>	<b>7,791</b>	<b>41</b>	<b>2,268</b>	<b>40,619</b>	
Non-financial assets							2,499	
<b>Total assets</b>							<b>43,118</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	287	-	-	-	-	180	467	5.3
Deposits	20,371	1,156	476	165	15	1,895	24,078	4.7
Bonds, notes and commercial paper	-	-	97	100	-	-	197	5.9
Due to related entities	3,957	3,356	841	2,983	-	872	12,009	2.7
Other liabilities	627	-	-	-	-	2,782	3,409	5.1
Subordinated debt	-	-	50	-	-	-	50	7.5
<b>Total financial liabilities</b>	<b>25,242</b>	<b>4,512</b>	<b>1,464</b>	<b>3,248</b>	<b>15</b>	<b>5,729</b>	<b>40,210</b>	
Non-financial liabilities							40	
<b>Total liabilities</b>							<b>40,250</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	6,081	2,915	(3,285)	(5,603)	(108)	-	-	

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

## Notes to the financial statements

### NOTE 31 INTEREST RATE RISK continued

**NZ Bank**  
30 September 2004 – Audited

	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	Non- interest bearing \$m	Total \$m	Weighted average interest rate % <sup>1</sup>
<b>FINANCIAL ASSETS</b>								
Cash	-	-	-	-	-	101	101	-
Due from other financial institutions	265	-	-	-	-	88	353	6.3
Trading securities	2,548	-	-	-	-	105	2,653	6.4
Loans	15,963	3,525	5,104	7,158	12	(270)	31,492	7.9
Due from related entities	181	-	-	4,611	-	140	4,932	6.7
Other assets	158	-	-	-	-	1,281	1,439	5.5
<b>Total financial assets</b>	<b>19,115</b>	<b>3,525</b>	<b>5,104</b>	<b>11,769</b>	<b>12</b>	<b>1,445</b>	<b>40,970</b>	
Non-financial assets							2,487	
<b>Total assets</b>							<b>43,457</b>	
<b>FINANCIAL LIABILITIES</b>								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	13,650	5,789	3,420	542	-	1,919	25,320	4.4
Bonds, notes and commercial paper	100	-	-	100	-	-	200	5.9
Due to related entities	4,417	4,047	1,626	525	-	628	11,243	3.7
Other liabilities	184	-	-	-	-	2,189	2,373	6.2
Subordinated debt	-	-	-	-	785	-	785	5.3
<b>Total financial liabilities</b>	<b>19,242</b>	<b>9,836</b>	<b>5,046</b>	<b>1,167</b>	<b>785</b>	<b>4,916</b>	<b>40,992</b>	
Non-financial liabilities							41	
<b>Total liabilities</b>							<b>41,033</b>	
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>								
Net interest rate contracts (principal):								
Receivable/(payable)	7,653	(1,333)	(2,951)	(3,283)	(86)	-	-	

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

## Notes to the financial statements

### NOTE 32 FOREIGN CURRENCY RISK

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

#### NET OPEN POSITION

	NZ Banking Group			NZ Bank		
	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m	31 March 2005 Unaudited \$m	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
	<b>(Payable)/receivable</b>					
Australian Dollar	(8)	1	(27)	(8)	1	(27)
Euro	(2)	4	1	(2)	4	1
Great Britain Pound	1	1	-	1	1	-
Japanese Yen	6	(1)	-	6	(1)	-
United States Dollar	(12)	(16)	(12)	(12)	(16)	(12)
Other	(4)	(1)	1	(4)	(1)	1

### NOTE 33 CAPITAL ADEQUACY

	Overseas Banking Group				Minimum Capital Adequacy Ratio as specified by APRA %
	31 March 2005 Unaudited %	31 March 2004 Unaudited %	30 September 2004 Audited %		
	Tier One Capital, expressed as a percentage of risk weighted exposures	7.1	7.2	6.9	
Capital, expressed as a percentage of risk weighted exposures	10.0	10.2	9.7	8.0	

  

	Overseas Bank				Minimum Capital Adequacy Ratio as specified by APRA %
	31 March 2005 Unaudited %	31 March 2004 Unaudited %	30 September 2004 Audited %		
	Tier One Capital, expressed as a percentage of risk weighted exposures	6.2	6.3	6.1	
Capital, expressed as a percentage of risk weighted exposures	9.7	10.0	9.6	8.0	

The Overseas Bank and the Overseas Banking Group are subject to the capital adequacy requirements as specified by the Australian Prudential Regulation Authority ("APRA"). The capital adequacy requirements are based on the framework proposed by the Basel Committee on Banking Supervision, which have been endorsed by banking supervisory authorities in the G10 and other industrial countries.

The Overseas Bank and the Overseas Banking Group exceed the minimum capital adequacy requirements as specified by APRA as at 31 March 2005. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

### NOTE 34 SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

#### SECURITISATION

As at 31 March 2005, the NZ Banking Group had securitised assets amounting to \$726 million (31 March 2004: \$810 million; 30 September 2004: \$757 million) under the Westpac Securitisation Trust programme ("WST programme") and various private placements including under the Home Loan Trust programme ("HLT programme").

The NZ Banking Group receives fees for various services provided to the WST programme and HLT programme on an arm's length basis, including servicing fees and/or trustee fees. These fees are recognised over the period in which the costs are borne. The NZ Banking Group also provides arm's length interest rate swaps and liquidity facilities to the WST programme.

## Notes to the financial statements

### **NOTE 34 SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS continued**

The securities issued under the WST programme and the units issued under the HLT programme do not represent deposits or other liabilities of either the NZ Banking Group or the Overseas Banking Group. Neither the NZ Banking Group nor the Overseas Banking Group, in any way, stand behind the capital value and/or performance of the securities or the assets of the WST programme or HLT programme except to the limited extent provided in the transaction documents for those programmes through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the securities or units. Neither the NZ Banking Group nor the Overseas Banking Group is obliged to support any losses that may be suffered by the investors and neither intend to provide such support. The NZ Banking Group has no right to repurchase any of the securitised loans and has no obligation to do so, other than in certain circumstances (excluding loan impairment) where there is a breach of representation or warranty within 120 days of the initial sale. Repurchases of securitised loans may also occur through the WST programme's clean up features where any repurchase is conducted at market terms and conditions to a maximum of 10% of the securitised programme's initial value.

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

#### **FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES**

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

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

	<b>31 March 2005 Unaudited \$m</b>	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
Private and priority	<b>171</b>	112	114
Retirement plans	<b>347</b>	367	349
Retail unit trusts	<b>1,577</b>	1,829	1,599
Wholesale unit trusts	<b>371</b>	1,212	462
<b>Total funds under management</b>	<b>2,466</b>	3,520	2,524

#### **INVOLVEMENT WITH THE NZ BANKING GROUP**

The NZ Bank has disclosed under note 26 where it has acted as guarantor and surety of certain obligations and unit trusts. Financial services provided by, and assets purchased from, any member of the NZ Banking Group are on arm's length terms and conditions at fair value.

#### **RISK MANAGEMENT**

The NZ Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. 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 NZ 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.

While these arrangements are expected to minimise any adverse impacts on the NZ Banking Group of difficulties arising from the activities identified above, it is not certain that the arrangements would ensure that no such adverse impacts would arise. Accordingly, as at balance date, there is no arrangement in place to ensure that difficulties arising from the activities identified above will not impact adversely on the NZ Banking Group.

#### **MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS**

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

## Notes to the financial statements

### **NOTE 34 SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS continued**

#### **RISK MANAGEMENT**

The NZ Banking Group has in place policies and procedures to ensure that the insurance activities of the NZ Banking Group are conducted in an appropriate manner. Should adverse conditions arise it is considered that these policies and procedures will minimise the possibility that those conditions would impact adversely on the NZ Banking Group. The policies and procedures referred to include formal and regular review of operations and policies by management, the company actuary and auditors, and a reinsurance programme in respect of large individual risks and catastrophic events.

While these arrangements are expected to minimise any adverse impacts on the NZ Banking Group of difficulties arising from the NZ Banking Group's insurance activities, it is not certain that the arrangements would ensure that no such adverse impacts would arise. Accordingly, as at balance date, there is no arrangement in place to ensure that difficulties arising from the insurance activities will not impact adversely on the NZ Banking Group.

#### **NOTE 35 SEGMENT INFORMATION**

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

#### **NOTE 36 INSURANCE BUSINESS**

The life insurance business of the NZ Banking Group is conducted by a subsidiary of the NZ Banking Group, Westpac Life - NZ - Limited. The insurance underwriting business comprises less than 1% of the total assets of the NZ Banking Group.

The aggregate amount of the insurance business is:

	<b>31 March 2005 Unaudited \$m</b>	31 March 2004 Unaudited \$m	30 September 2004 Audited \$m
<b>Total assets</b>	<b>71</b>	101	79

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





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## AUDITORS' REPORT

TO THE DIRECTORS OF WESTPAC BANKING CORPORATION

We have reviewed the financial statements on pages 12 to 70 and the supplementary information contained in the section "Market Risk" on page 7. The financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Branch (the "NZ Bank") and Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") and their financial position as at 31 March 2005. This information is stated in accordance with the accounting policies set out on pages 17 to 24.

The financial statements consist of the financial statements of the NZ Bank and the consolidated financial statements of the NZ Banking Group for the six months ended 31 March 2005, and contain the supplementary information required by Clause 12(3) of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (the "Order"). The supplementary information in the section "Market Risk" on page 7 contains those disclosures required by Clause 12(4) of the Order.

## DIRECTORS' RESPONSIBILITIES

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2005 and their financial performance and cash flows for the six months ended on that date. They are also responsible for the preparation and presentation of supplementary information which:

- gives a true and fair view, in accordance with Clause 12(3) of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8 of the Order in accordance with Clause 12(4) of the Order.

## REVIEWERS' RESPONSIBILITIES

We are responsible for reviewing the financial statements and supplementary information disclosed in accordance with Clauses 12(2) and 12(3) of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the financial statements and supplementary information do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

We are also responsible for reviewing the supplementary information disclosed in accordance with Clause 12(4) of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the supplementary information does not comply with Schedules 7 and 8 of the Order, and for reporting our findings to you.



**AUDITORS' REPORT**

WESTPAC BANKING CORPORATION

**BASIS OF REVIEW STATEMENT**

Our review has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of NZ Bank and NZ Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

**UNQUALIFIED REVIEW STATEMENT**

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

(a) the financial statements do not:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2005 and their financial performance and cash flows for the six months ended on that date; and

(b) the supplementary information as required by Clause 12(3) of the Order does not give a true and fair view of the matters to which it relates; and

(c) the supplementary information required by Clause 12(4) of the Order, does not comply with Schedules 7 and 8 of the Order.

Our work was completed on 5 May 2005 and our unqualified review statement is expressed as at that date.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

Chartered Accountants

Auckland



