



Westpac Banking Corporation's general disclosure statement

for the year ended 30 September 2004

Index	01	General information and definitions
	02	General matters
	02	Registered bank: directorate and advisers
	04	Credit ratings
	04	Financial statements of the Overseas Bank and the Overseas Banking Group
	05	Historical summary of financial statements
	06	Market risk
	06	Guarantee arrangements
	07	Pending proceedings or arbitrations
	07	Local incorporation
	07	Conditions of registration
	08	The directors' statement
	09	Consolidated financial statements
	62	Auditors' report

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 1998 (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
 - 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.

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

General matters

REGISTERED BANK

The Overseas Bank is entered on the register maintained under the Reserve Bank of New Zealand Act 1989. However, for the purposes of this General Disclosure Statement, the registered bank is the NZ 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.

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:

Leonard Andrew Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM.
Non-executive Director (Chairman)
Australia

Edward Alfred Evans, AC, BEcon.
Non-executive Director
Australia

David Raymond Morgan, BEc, MSc, PhD.
Managing Director and Chief Executive Officer
Australia

Carolyn Judith Hewson, BEc (Hons), MA (Econ.).
Non-executive Director
Australia

Gordon McKellar Cairns, MA (Hons).
Appointed 8 July 2004
Non-executive Director
Australia

Helen Ann Lynch, AM.
Non-executive Director
Australia

David Alexander Crawford, BCom, LLB, FCA, FCPA.
Non-executive Director
Australia

Peter David Wilson, CA.
Appointed 31 October 2003
Non-executive Director
New Zealand

The Hon. Sir Llewellyn Roy Edwards, AC, MB, BS, FRACMA, LLD (h.c.), FAIM.
Non-executive Director
Australia

Further biographical information on the Directors of the Overseas Bank is contained in the Overseas Banking Group's 30 September 2004 Annual Financial Report.

RESPONSIBLE PERSONS

The following person has been authorised by each Director in writing in accordance with section 82 of the Reserve Bank of New Zealand Act 1989 to sign this General Disclosure Statement on the Directors' behalf and is accordingly a responsible person under the Registered Bank Disclosure Statement (Full and Half-Year - Overseas Incorporated Registered Banks) Order 1998 (New Zealand):

Ann Sherry AO, BA, GradDipIR, MAICD, FAIBF, FIPAA.
Chief Executive Officer
Westpac New Zealand
Level 15
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

All communications may be sent to the Directors and the responsible person at the head office of the NZ Bank at 188 Quay Street, Auckland, New Zealand.

CONFLICT OF INTERESTS POLICY

The Overseas Bank has a formal policy for avoiding or dealing with Directors' conflicts of interest, and such conflicts are also governed by the Overseas Bank's Constitution, the Corporations Act 2001 (Australia) and the Australian Prudential Regulation Authority's ("APRA") Prudential Statement No. B1 – Ownership and Control of Banks. Accordingly, each Director must:

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

INTERESTED TRANSACTIONS

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director with the NZ Bank, or any member of the NZ Banking Group, other than on the NZ Bank's or the NZ Banking Group's normal terms and conditions in the ordinary course of business. No such transactions are reasonably likely to influence materially the exercise of the Directors' duties.

SOLICITORS

Simpson Grierson
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

AUDITORS

Overseas Banking Group

PricewaterhouseCoopers

Address for service:
201 Sussex Street
Sydney, NSW 1171
Australia

New Zealand Banking Group

PricewaterhouseCoopers

Address for service:
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. There 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	AA-
Moody's Investors Service Inc.	Aa3
Fitch IBCA	AA-

DESCRIPTIONS OF CREDIT RATING SCALES

	Standard & Poor's	Moody's Investors Service Inc.	Fitch IBCA
The following grades display investment grade characteristics:			
Extremely strong ability to repay principal and interest.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	B B B	Baa	B B B

The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	B B	Ba	B B
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.

Historical summary of financial statements

NZ Banking Group						
	Note	2004 \$m	2003 \$m	2002 \$m	2001 \$m	2000 \$m
STATEMENT OF FINANCIAL PERFORMANCE						
Interest income		2,596	2,368	2,075	2,326	2,109
Interest expense		(1,499)	(1,335)	(1,160)	(1,501)	(1,301)
Net interest income		1,097	1,033	915	825	808
Non-interest income	(i)	591	538	596	469	459
Operating income		1,688	1,571	1,511	1,294	1,267
Non-interest expenses		(731)	(699)	(685)	(639)	(656)
Operating profit before bad and doubtful debts expense		957	872	826	655	611
Bad and doubtful debts expense	(ii)	(39)	(205)	(40)	(45)	(32)
Operating profit before income tax expense		918	667	786	610	579
Income tax expense		(297)	(203)	(168)	(131)	(144)
Operating profit after income tax expense		621	464	618	479	435
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(4)	(2)	(4)	(14)	(26)
Operating profit after income tax expense attributable to NZ Banking Group equity holders		617	462	614	465	409
Remittance to the Overseas Bank		(350)	-	(200)	(67)	(40)
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)		(138)	(64)	(33)	(33)	(34)
Dividends paid or provided for on NZ Class Shares		(50)	(44)	(44)	(19)	(55)
Operating profit retained		79	147	146	170	165
STATEMENT OF FINANCIAL POSITION						
Total assets		42,501	39,945	37,458	38,178	35,017
Total impaired assets		58	71	92	146	151
Total liabilities		38,074	34,920	33,148	34,330	31,416
Equity	(iii)	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 financial year.

- (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 1998 (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 30 September 2004 (30 September 2003 for comparatives).

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 30 September 2004 \$m	30 September 2004 \$m	As at 30 September 2003 \$m	30 September 2003 \$m
Aggregate interest rate exposure	121	202	139	193
As a percentage of the Overseas Banking Group's equity	0.70%	1.16%	0.87%	1.21%
Aggregate foreign currency exposure	3	3	1	1
As a percentage of the Overseas Banking Group's equity	0.02%	0.02%	0.01%	0.01%

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 (together 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.

Pending proceedings or arbitrations

There are no legal proceedings or arbitrations pending at the date of this General Disclosure Statement, which may have a material adverse effect on the NZ Bank or the NZ Banking Group. Proceedings are likely to be filed by the NZ Bank against the New Zealand Inland Revenue Department (“NZIRD”) in which the NZ Bank will dispute 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 NZIRD investigation and various contingent liabilities of the NZ Bank and the NZ Banking Group is set out in note 28 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.

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. The NZ Bank is in regular contact with the Reserve Bank regarding the application of this policy to the NZ Bank. The NZ Bank is currently discussing with the Governor of the Reserve Bank potential alternatives to local incorporation for the NZ Bank.

Conditions of registration

The conditions of registration imposed on the NZ Bank 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 36 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).

The directors' statement


Each Director of the Overseas Bank 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 1998 (New Zealand); and
- (b) the Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank believes, after due enquiry, that, over the year ended 30 September 2004:

- (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 8th day of November 2004.

Consolidated financial statements

Contents	10	Statements of financial performance
	11	Statements of movements in equity
	12	Statements of financial position
	13	Statements of cash flows
	15	Notes to the financial statements
	62	Auditors' report

Statements of financial performance

For the year ended 30 September 2004

	Note	NZ Banking Group		NZ Bank	
		2004 \$m	2003 \$m	2004 \$m	2003 \$m
Interest income	3	2,596	2,368	2,515	2,225
Interest expense	3	(1,499)	(1,335)	(1,666)	(1,438)
Net interest income		1,097	1,033	849	787
Non-interest income	4	591	538	512	481
Operating income		1,688	1,571	1,361	1,268
Non-interest expenses	5	(731)	(699)	(761)	(727)
Operating profit before bad and doubtful debts expense		957	872	600	541
Bad and doubtful debts expense	6	(39)	(205)	(39)	(199)
Operating profit before income tax expense		918	667	561	342
Income tax expense	7	(297)	(203)	(106)	(42)
Operating profit after income tax expense		621	464	455	300
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(4)	(2)	-	-
Operating profit after income tax expense attributable to NZ Banking Group equity holders		617	462	455	300

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.

Statements of movements in equity

For the year ended 30 September 2004

	Note	NZ Banking Group		NZ Bank	
		2004 \$m	2003 \$m	2004 \$m	2003 \$m
Balance at beginning of the year		5,025	4,310	3,062	2,359
Operating profit after income tax expense attributable to NZ Banking Group equity holders		617	462	455	300
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		4	2	-	-
Total recognised revenue and expenses		621	464	455	300
Ordinary share capital:					
Issue of ordinary share capital		50	-	-	-
Dividends paid on ordinary share capital		-	(180)	-	-
Redemption of branch capital	23	-	(600)	-	(600)
Subordinated capital instruments:	24				
Redemption of subordinated capital instruments		-	(900)	-	(900)
Dividends paid or provided for on subordinated capital instruments (net of tax)		-	(27)	-	(27)
Convertible debentures:	25				
Issue of convertible debentures (net of issue costs)		-	1,994	-	1,994
Dividends paid or provided for on convertible debentures (net of tax)		(138)	(64)	(138)	(64)
Redemption of convertible debentures ¹		(605)	-	(605)	-
NZ Class Shares:	27				
Dividends paid on NZ Class Shares		(50)	(44)	-	-
Purchase of NZ Class Shares – Treasury Stock		(19)	-	-	-
Aggregation of new entities ²		-	80	-	-
Other minority interests		(107)	(8)	-	-
Remittance to the Overseas Bank		(350)	-	(350)	-
Balance at end of the year		4,427	5,025	2,424	3,062

The following notes (numbered 1 to 39) 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.
2. This represents the net pre-acquisition capital contributed by the aggregation of BT Financial Group (NZ) Limited into the NZ Banking Group.

Statements of financial position

As at 30 September 2004

	Note	NZ Banking Group		NZ Bank	
		2004 \$m	2003 \$m	2004 \$m	2003 \$m
ASSETS					
Cash		101	103	101	103
Due from other financial institutions	9	354	77	353	74
Trading securities	10	2,653	2,258	2,653	2,258
Loans	11,12	36,093	33,361	31,492	28,050
Investment in related entities	14	-	-	1,777	1,777
Due from related entities	14	750	1,233	4,932	5,293
Property, plant and equipment	15	212	227	129	135
Intangible assets	16	564	611	477	516
Other assets	17	1,774	2,075	1,543	1,814
Total assets		42,501	39,945	43,457	40,020
Less:					
LIABILITIES					
Due to other financial institutions	18	1,071	201	1,071	201
Deposits	19	25,325	22,542	25,320	22,537
Bonds, notes and commercial paper	20	7,772	8,249	200	197
Due to related entities	14	569	702	11,243	10,910
Other liabilities	21	2,552	3,176	2,414	3,063
Total liabilities excluding subordinated debt		37,289	34,870	40,248	36,908
Subordinated debt	22	785	50	785	50
Total liabilities		38,074	34,920	41,033	36,958
Net assets		4,427	5,025	2,424	3,062
Represented by:					
EQUITY					
Ordinary share capital		132	82	-	-
Convertible debentures	25	1,994	2,580	1,994	2,580
Property revaluation reserve	26	-	1	-	-
Retained earnings		1,065	1,004	430	482
Total NZ Banking Group equity		3,191	3,667	2,424	3,062
NZ Class Shares	27	579	598	-	-
Other minority interests		657	760	-	-
Total equity		4,427	5,025	2,424	3,062

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.

Statements of cash flows

For the year ended 30 September 2004

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest income received	2,579	2,361	2,527	2,246
Non-interest income received	516	691	438	594
(Increase)/decrease in trading securities and derivative financial instruments	(578)	1,117	(602)	987
Interest paid	(1,456)	(1,431)	(1,668)	(1,446)
Non-interest expenses paid	(645)	(513)	(699)	(757)
Income tax paid	(261)	(180)	(63)	(16)
Net cash flows from operating activities	155	2,045	(67)	1,608
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of property, plant and equipment	3	11	1	9
Purchase of property, plant and equipment	(58)	(127)	(45)	(93)
Increase in loans	(2,878)	(2,194)	(3,481)	(2,859)
Acquisition of related entities (net of cash acquired)	-	(75)	-	-
Disposal of related entities	427	70	-	-
Movement in other assets	(85)	(82)	(23)	33
Net cash flows from investing activities	(2,591)	(2,397)	(3,548)	(2,910)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in due from other financial institutions – term	(67)	-	(67)	-
Increase/(decrease) in due to other financial institutions – term	832	(20)	832	(20)
Increase in deposits	2,783	399	2,783	405
(Decrease)/increase in bonds, notes and commercial paper	(477)	405	3	38
(Decrease)/increase in amounts due to and due from related entities	(16)	(373)	695	711
Decrease in other liabilities	(6)	-	(35)	-
Issue of ordinary share capital	50	-	-	-
Issue of convertible debentures (net of issue costs)	-	1,994	-	1,994
Issue of subordinated debt (net of issue costs)	785	-	785	-
Redemption of subordinated capital instruments	-	(900)	-	(900)
Redemption of branch capital	-	(600)	-	(600)
Redemption of convertible debentures	(605)	-	(605)	-
Redemption of subordinated debt	(50)	-	(50)	-
Dividends paid on ordinary share capital	-	(180)	-	-
Dividends paid on subordinated capital instruments	-	(40)	-	(40)
Dividends paid on convertible debentures	(204)	(96)	(204)	(96)
Dividends paid on NZ Class Shares	(50)	(44)	-	-
Purchase of NZ Class Shares – Treasury Stock	(19)	-	-	-
Remittance to the Overseas Bank	(350)	-	(350)	-
Net cash flows from financing activities	2,606	545	3,787	1,492
NET INCREASE IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of the year	38	(155)	35	(155)
Cash and cash equivalents at end of the year	208	38	207	35
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	101	103	101	103
Due from other financial institutions – at call	287	77	286	74
Due to other financial institutions – at call	(180)	(142)	(180)	(142)
Cash and cash equivalents at end of the year	208	38	207	35

Statements of cash flows continued

For the year ended 30 September 2004

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX EXPENSE TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating profit after income tax expense attributable to NZ Banking Group equity holders	617	462	455	300
Adjustments:				
Amortisation of intangible assets	47	47	39	39
Additional general provision	-	178	-	178
Bad and doubtful debts expense	39	27	39	21
Depreciation/amortisation	70	62	50	43
Intragroup minority interests in subsidiary companies	4	2	-	-
Movement in accrued assets	(64)	87	(28)	113
Movement in accrued liabilities	57	(14)	11	(203)
Movement in income tax provisions	37	23	43	25
Movement in trading securities and derivative financial instruments	(652)	1,171	(676)	1,092
Net cash flows from operating activities	155	2,045	(67)	1,608

The following notes (numbered 1 to 39) 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 1998 (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 5 November 2004.

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.

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, 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.

Comparative Figures

Certain comparative figures have been restated so as to enhance comparability with the current financial year. In particular, as a result of continuing analysis of hedges on structured finance transactions, the results of hedges have been reclassified from interest expense to non-interest income. This restatement was described in the 30 June 2004 General Short Form Disclosure Statement. The table below has been included to reflect the restatement for the current year and the previous financial year for completeness.

	Six months ended 31 March 2004 Unaudited \$m	Three months ended 31 December 2003 Unaudited \$m	Year ended 30 September 2003 Unaudited \$m	Nine months ended 30 June 2003 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Three months ended 31 December 2002 Unaudited \$m
Interest income	1,242	603	2,368	1,787	1,188	594
Interest expense	(701)	(336)	(1,335)	(1,017)	(676)	(342)
Net interest income	541	267	1,033	770	512	252
Trading income	38	18	82	38	45	23
Other non-interest income	252	123	456	368	227	118
Operating income	831	408	1,571	1,176	784	393

Notes to the financial statements

NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

PARTICULAR ACCOUNTING POLICIES

Bad and Doubtful Debts Throughout each financial year 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.

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 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.

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.

Notes to the financial statements

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

Foreign Currency	<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>
Funds Management and Trust Activities	<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>
Goods and Services Tax	<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>
Impaired Assets	<p>Impaired assets consist of:</p> <ul style="list-style-type: none">■ 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.■ 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.■ 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. <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>
Interest	<p>Interest income</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 years is either written off as a bad debt or specific provision.</p> <p>Interest expense</p> <p>Interest expense is brought to account on an accrual basis.</p>
Intangible Assets	<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

Leasing

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”.

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.

Life Insurance

Assets

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.

Liabilities

Policyholder liabilities have been calculated using the Margin on Services methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*.

Provision has also been made for estimated liabilities in respect of claims notified, but not settled at balance date, together with an allowance for incurred but not reported claims.

Property, Plant and Equipment

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.

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.

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.

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.

Redeemable Preference Share Finance

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”.

Repurchase Agreements and Short Sales of Securities

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”.

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.

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.

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.

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 financial year 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 financial years is considered virtually certain.

Notes to the financial statements

NOTE 01 STATEMENT OF ACCOUNTING POLICIES *continued*

Trading Income	<p>Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance.</p> <p>Both realised and unrealised gains and losses on trading derivative contracts are included in the statement of financial performance.</p> <hr/>
Trading Securities	<p>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.</p> <p>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'.</p> <p>Short trading positions are included in the statement of financial position under 'other liabilities'.</p> <hr/>
Changes in Accounting Policies	<p>A new accounting policy has been introduced relating to the accounting for the redemption of convertible debentures. There have been no other material changes in accounting policies during the current financial year. All accounting policies have been applied on a basis consistent with those used in the previous financial year.</p> <hr/>
New Accounting Policy – Redemption of Convertible Debentures	<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 financial year that the convertible debentures are classified as a liability are recognised as an interest expense in the statement of financial performance.</p> <hr/>

Notes to the financial statements

NOTE 02 RISK MANAGEMENT POLICIES

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 during the financial year.

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 division, values and code of conduct and are embedded in all levels of risk management policy including rules, procedures and training. This is designed to shape its risk management behaviour.

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 BRMC are the subcommittees of the Overseas Bank 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 GM 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.

An independent review of management performance is undertaken by the Portfolio Risk Review unit and internal audit. 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. Internal 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 POLICIES 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 approve 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 pre-settlement risk. 'Close out' netting is used to reduce gross credit exposures for counterparties where legally enforceable netting agreements are in place. In a close out netting situation the positive and negative mark-to-market value of all eligible foreign exchange and swap 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 POLICIES *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 Trading 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 Board Risk Management Committee ("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 POLICIES continued

Structural foreign exchange risk

The NZ Banking Group does not have any offshore branches or subsidiaries that give rise to 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, 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 CEO 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 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.

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.

Notes to the financial statements

NOTE 02 RISK MANAGEMENT POLICIES continued

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 POLICIES 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 30 September 2004, the NZ Banking Group held liquid assets of \$2,504 million (2003: \$1,918 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 non-executive 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 there were quarterly internal audit reviews of 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.

Controls over the adequacy and effectiveness of the dynamic provisioning systems are reviewed annually by Group Audit.

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

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 03 INTEREST				
INTEREST INCOME				
Loans	2,577	2,360	2,186	1,935
Impaired assets	2	3	2	3
Related entities	9	-	319	284
Other	8	5	8	3
Total interest income	2,596	2,368	2,515	2,225
INTEREST EXPENSE				
Deposits and bills payable	1,286	1,165	1,285	1,165
Bonds, notes and commercial paper	175	155	12	14
Related entities	8	5	339	249
Subordinated debt	24	4	24	4
Other	6	6	6	6
Total interest expense	1,499	1,335	1,666	1,438

The NZ Banking Group has loans and deposits that are subject to set-off agreements as disclosed in note 11. For the year ended 30 September 2004, interest income of \$422 million (2003: \$421 million) and interest expense of \$161 million (2003: \$161 million) has been set-off. This resulted in net interest income of \$261 million (2003: \$260 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	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 04 NON-INTEREST INCOME				
Lending fees (loan and risk)	103	91	103	91
Net transaction fees and commissions received	248	230	243	226
Other non-risk fee income	65	51	60	50
Wealth management income	71	68	-	-
General insurance commissions and premiums (net of claims)	6	5	25	4
Trading income:				
Foreign exchange trading	52	52	52	52
Other trading	19	30	19	30
Management fees received from related entities	-	-	8	25
Other	27	11	2	3
Total non-interest income	591	538	512	481

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 05 NON-INTEREST EXPENSES				
Amortisation of intangible assets	47	47	39	39
Auditors' remuneration:				
Audit fees	1	1	1	1
Other services	-	-	-	-
Depreciation and amortisation:				
Leasehold improvements	12	10	-	-
Furniture and fittings	9	9	1	1
Computer equipment and software	49	43	49	42
Equipment expenses	8	10	4	7
Lease and rental expenses	53	50	8	8
Related entities:				
Subvention payments	-	-	62	64
Other related entities expenses	14	15	84	78
Salaries	275	261	267	253
Other staff expenses	36	36	35	36
Consultancy fees and other professional services	126	114	114	100
Communications, advertising and stationery	69	68	67	65
Other	32	35	30	33
Total non-interest expenses	731	699	761	727

For the year ended 30 September 2004, auditors' remuneration included audit fees of \$707,400 (2003: \$664,875) for the NZ Bank including GST of \$78,600 (2003: \$73,875) and \$733,275 (2003: \$690,750) for the NZ Banking Group including GST of \$81,475 (2003: \$76,750). Auditors' remuneration also included fees for other services for the year ended 30 September 2004 of \$358,869 (2003: \$551,250) for the NZ Bank including GST of \$39,874 (2003: \$61,250) and \$732,364 (2003: \$643,500) for the NZ Banking Group including GST of \$81,374 (2003: \$71,500).

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 06 BAD AND DOUBTFUL DEBTS EXPENSE				
Specific provisions	17	15	17	15
Specific provisions no longer required	(10)	(15)	(10)	(15)
General provision	11	9	12	9
Write-offs direct	38	44	35	38
Recoveries	(17)	(26)	(15)	(26)
Bad and doubtful debts expense before additional general provision	39	27	39	21
Additional general provision	-	178	-	178
Total bad and doubtful debts expense	39	205	39	199

Further information on the additional general provision can be found in note 12.

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 07 INCOME TAX				
INCOME TAX EXPENSE				
Operating profit before income tax expense	918	667	561	342
Prima facie income tax expense at 33 percent (Deduct)/add income tax effect of:	303	220	185	113
Exempt dividends	(20)	(22)	-	-
Non-assessable income	(5)	(7)	-	-
Non-deductible expenses	15	14	13	13
Other items	4	(2)	(92)	(84)
Total income tax expense	297	203	106	42
Comprising:				
Current income tax	310	273	122	104
Deferred income tax	(17)	(10)	(11)	(3)
Future income tax benefit	4	(60)	(5)	(59)
Total income tax expense	297	203	106	42
DEFERRED INCOME TAX				
Balance at beginning of the year	23	33	14	17
Current year timing differences	(17)	(10)	(11)	(3)
Balance at end of the year	6	23	3	14
FUTURE INCOME TAX BENEFIT				
Balance at beginning of the year	119	49	99	40
Current year timing differences	(4)	60	5	59
Other movements	-	10	-	-
Balance at end of the year	115	119	104	99

The balance of the dividend withholding payment account as at 30 September 2004 was nil (2003: nil) and there was no movement during the year ended 30 September 2004 (2003: nil).

Realisation of the income tax benefit is subject to the requirements of the income tax legislation being met.

	NZ Banking Group	
	2004 \$m	2003 \$m
NOTE 08 IMPUTATION CREDIT ACCOUNT		
Balance at beginning of the year	55	83
Imputation credits attached to dividends received during the year	3	2
Imputation credits attached to dividends paid during the year	(26)	(78)
Income tax payments during the year	47	48
Balance at end of the year	79	55

The NZ Bank is not required to hold an imputation credit account as it is deemed to be a non-resident for income tax purposes.

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 09 DUE FROM OTHER FINANCIAL INSTITUTIONS				
At call	287	77	286	74
Term	67	-	67	-
Total due from other financial institutions	354	77	353	74
NOTE 10 TRADING SECURITIES				
Treasury bills	1,092	987	1,092	987
Certificates of deposit	1,147	929	1,147	929
Commercial paper	124	69	124	69
New Zealand Government stock	157	128	157	128
Other trading securities	133	145	133	145
Total trading securities	2,653	2,258	2,653	2,258

As at 30 September 2004, included in trading securities of the NZ Banking Group and NZ Bank were assets of \$154 million encumbered through repurchase agreements (2003: \$416 million).

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 11 LOANS				
Overdrafts	1,046	1,088	1,046	1,088
Credit card outstandings	923	877	844	791
Overnight and at call money market loans	1,187	1,097	1,187	1,097
Term loans:				
Housing	18,835	15,933	18,504	15,410
Non-housing	9,566	8,621	9,556	8,609
Other	4,813	6,011	625	1,313
Total gross loans	36,370	33,627	31,762	28,308
Provisions for bad and doubtful debts	(277)	(266)	(270)	(258)
Total net loans	36,093	33,361	31,492	28,050

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 30 September 2004, the loans of \$3,650 million (2003: \$3,650 million) had been offset against the related borrowings of \$3,590 million (2003: \$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

	2004 Non-accrual assets \$m	2004 Restructured assets \$m	2004 Total \$m	2003 Non-accrual assets \$m	2003 Restructured assets \$m	2003 Total \$m
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NOTE 12 IMPAIRED ASSETS

Gross impaired assets	58	-	58	71	-	71
Specific provisions	(8)	-	(8)	(8)	-	(8)
Net impaired assets	50	-	50	63	-	63

GROSS IMPAIRED ASSETS

Balance at beginning of the year	71	-	71	91	1	92
Additions	221	-	221	47	-	47
Amounts written off	(14)	-	(14)	(10)	(1)	(11)
Returned to performing or repaid	(220)	-	(220)	(57)	-	(57)
Balance at end of the year	58	-	58	71	-	71

Interest forgone for the year on the above impaired assets			2			2
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SPECIFIC PROVISIONS

Balance at beginning of the year	8	-	8	15	-	15
Charge to statement of financial performance	17	-	17	15	-	15
Specific provisions no longer required	(10)	-	(10)	(15)	-	(15)
Bad debts written off	(7)	-	(7)	(7)	-	(7)
Balance at end of the year	8	-	8	8	-	8

			2004 \$m			2003 \$m
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GENERAL PROVISION

Balance at beginning of the year			258			71
Charge to statement of financial performance			11			187
Balance at end of the year			269			258

PAST DUE ASSETS

Balance at beginning of the year			197			247
Additions			37			47
Deletions			(203)			(97)
Balance at end of the year			31			197

Notes to the financial statements

NOTE 12 IMPAIRED ASSETS continued

	NZ Bank					
	2004	2004	2004	2003	2003	2003
	Non-accrual assets \$m	Restructured assets \$m	Total \$m	Non-accrual assets \$m	Restructured assets \$m	Total \$m
Gross impaired assets	55	-	55	67	-	67
Specific provisions	(8)	-	(8)	(8)	-	(8)
Net impaired assets	47	-	47	59	-	59
GROSS IMPAIRED ASSETS						
Balance at beginning of the year	67	-	67	81	1	82
Additions	221	-	221	47	-	47
Amounts written off	(14)	-	(14)	(8)	(1)	(9)
Returned to performing or repaid	(219)	-	(219)	(53)	-	(53)
Balance at end of the year	55	-	55	67	-	67
Interest forgone for the year on the above impaired assets			2			2
SPECIFIC PROVISIONS						
Balance at beginning of the year	8	-	8	12	-	12
Charge to statement of financial performance	17	-	17	15	-	15
Specific provisions no longer required	(10)	-	(10)	-	-	-
Provisions transferred	-	-	-	(15)	-	(15)
Bad debts written off	(7)	-	(7)	(4)	-	(4)
Balance at end of the year	8	-	8	8	-	8
			2004			2003
			\$m			\$m
GENERAL PROVISION						
Balance at beginning of the year			250			63
Charge to statement of financial performance			12			187
Balance at end of the year			262			250
PAST DUE ASSETS						
Balance at beginning of the year			186			234
Additions			33			45
Deletions			(195)			(93)
Balance at end of the year			24			186

There are no unrecognised impaired assets.

During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect to 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.

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

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 13 INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES				
Total interest earning assets	39,347	36,169	39,525	35,587
Total interest bearing liabilities	34,093	30,474	37,130	32,569

Notes to the financial statements

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, 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	
Electric Investment (ANZ) Incorporated *	<i>Sold 2 July 2004</i>	<i>Formerly 60 percent owned</i>
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
First Data Capital, Inc.*	<i>Sold 11 March 2004</i>	<i>Formerly 60 percent owned</i>
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 Fund Acceptances - NZ - Limited	Finance company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Limited	<i>Sold 29 September 2004</i>	
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.

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 Investment Management - NZ - Limited	<i>Sold to BT Funds Management (NZ) Limited on 30 June 2004</i>	
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. Electric Investment (ANZ) Incorporated, 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. Electric Investment (ANZ) Incorporated has a balance date of 31 December. All other 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.

Notes to the financial statements

NOTE 14 RELATED ENTITIES continued

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
- Real Time Gross 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.

During the year ended 30 September 2003, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold Toliman Investments Limited for \$70 million to a third party. There was no material effect on the statement of financial performance.

During the year ended 30 September 2003, a number of NZ Banking Group subsidiaries were amalgamated with their immediate parent company pursuant to Part XIII of the Companies Act 1993. These amalgamations had no material impact on the statement of financial performance.

Name of Subsidiary	Date of Amalgamation	Continuing Entity
Bag Inns Three Limited	30 September 2003	Westpac Lease Discounting - NZ - Limited
C.B.A. Finance Nominees Limited	30 September 2003	Westpac Capital - NZ - Limited
Systems and Technology Limited	30 September 2003	Westpac Capital - NZ - Limited
Mortgage Services Limited	30 September 2003	Westpac Holdings - NZ - Limited

On 31 October 2002, a NZ Banking Group subsidiary, Westpac Holdings - NZ - Limited, acquired BT Financial Group (NZ) Limited (a holding company) including its subsidiary BT Funds Management (NZ) Limited (a funds management company). This resulted in an increase in assets of \$96 million and liabilities of \$33 million, including an amount of \$67 million of goodwill recognised on purchase. The NZ Banking Group paid cash consideration in exchange for the shares in BT Financial Group (NZ) Limited. Westpac Holdings - NZ - Limited subsequently sold BT Financial Group (NZ) Limited for cash to Westpac Financial Services Group Limited (an Australian incorporated subsidiary of the Overseas Bank) on 29 September 2003 for book value. However, BT Financial Group (NZ) Limited and its subsidiary remain part of the NZ Banking Group. This resulted in a decrease in assets of \$9 million and an increase in ordinary share capital of \$80 million. There has been no net material impact on the statement of financial performance from either of these transactions.

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.

A member of the NZ Banking Group had a loan to Westpac Papua New Guinea on which it was earning interest. The loan was repaid on 30 June 2003.

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 year ended 30 September 2004 was \$62 million (2003: \$64 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 year ended 30 September 2004 was \$22 million (2003: \$16 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 year ended 30 September 2004 were \$8 million (2003: \$9 million). Rental income is paid by the NZ Bank to Westpac (NZ) Investments Limited. The total charge during the year ended 30 September 2004 was \$68 million (2003: \$67 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 year ended 30 September 2004 were \$1 million (2003: \$2 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.

	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
NOTE 15 PROPERTY, PLANT AND EQUIPMENT						
AS AT 30 SEPTEMBER 2004						
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
Total property, plant and equipment	574	(362)	212	346	(217)	129
AS AT 30 SEPTEMBER 2003						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	2	-	2	1	-	1
Leasehold improvements	130	(65)	65	1	(1)	-
Furniture and fittings	94	(67)	27	10	(8)	2
Computer equipment and software	296	(164)	132	293	(161)	132
Total property, plant and equipment	523	(296)	227	305	(170)	135

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 16 INTANGIBLE ASSETS				
Gross amount at beginning of the year	936	878	783	783
Accumulated amortisation at beginning of the year	(325)	(278)	(267)	(228)
Additional goodwill recognised during the year	-	67	-	-
Goodwill derecognised on sale of subsidiary	-	(64)	-	-
Goodwill recognised on aggregation of new entities	-	55	-	-
Amortisation recognised during the year	(47)	(47)	(39)	(39)
Balance at end of the year	564	611	477	516
Comprising:				
Gross amount	936	936	783	783
Accumulated amortisation	(372)	(325)	(306)	(267)
	564	611	477	516
NOTE 17 OTHER ASSETS				
Accrued interest receivable	144	133	99	83
Securities purchased under agreements to resell	158	323	158	323
Securities sold not delivered	99	59	99	59
Other financial markets assets	987	1,255	986	1,229
Current income tax receivable	7	-	24	12
Life insurance assets	72	86	-	-
Future income tax benefit	115	119	104	99
Other assets	192	100	73	9
Total other assets	1,774	2,075	1,543	1,814
NOTE 18 DUE TO OTHER FINANCIAL INSTITUTIONS				
At call	180	142	180	142
Term	891	59	891	59
Total due to other financial institutions	1,071	201	1,071	201

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 19 DEPOSITS				
Non-interest bearing	865	938	865	938
Certificates of deposit	3,311	2,790	3,311	2,790
Other interest bearing:				
At call	10,768	9,314	10,768	9,314
Term	10,381	9,500	10,376	9,495
Total deposits	25,325	22,542	25,320	22,537

DEPOSITS OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

	NZ Banking Group			
	2004		2003	
	Total \$m	Weighted Average Interest Rate %	Total \$m	Weighted Average Interest Rate %
DEPOSITS				
One year or less	24,783		21,998	
Between one and two years	368	5.8	378	5.1
Between two and five years	174	6.4	166	6.1
Total deposits	25,325		22,542	

DEPOSITS OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank			
	2004		2003	
	Total \$m	Weighted Average Interest Rate %	Total \$m	Weighted Average Interest Rate %
DEPOSITS				
One year or less	24,778		21,993	
Between one and two years	368	5.8	378	5.1
Between two and five years	174	6.4	166	6.1
Total deposits	25,320		22,537	

Notes to the financial statements

	NZ Banking Group			
	2004	2004	2003	2003
		Weighted		Weighted
	Total	Average	Total	Average
	\$m	Interest Rate	\$m	Interest Rate
		%		%

NOTE 20 BONDS, NOTES AND COMMERCIAL PAPER

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

One year or less	5,743		5,406	
Between one and two years	1,196	4.8	1,443	1.5
Between two and five years	833	6.2	1,400	4.1
Total bonds, notes and commercial paper	7,772		8,249	

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

	NZ Bank			
	2004	2004	2003	2003
		Weighted		Weighted
	Total	Average	Total	Average
	\$m	Interest Rate	\$m	Interest Rate
		%		%
One year or less	100		-	
Between one and two years	100	6.3	97	6.0
Between two and five years	-	-	100	6.2
Total bonds, notes and commercial paper	200		197	

NOTE 21 OTHER LIABILITIES

	NZ Banking Group		NZ Bank	
	2004	2003	2004	2003
	\$m	\$m	\$m	\$m
Accrued interest payable	197	154	147	120
Securities purchased not delivered	204	113	204	113
Securities sold short	30	54	30	54
Securities sold under agreements to repurchase	154	416	154	416
Other financial markets liabilities	1,659	2,112	1,659	2,112
Current income tax payable	-	13	-	-
Provision for staff benefits	39	37	38	35
Policyholder liabilities	(1)	1	-	-
Provision for deferred income tax	6	23	3	14
Claims reserves	7	12	-	-
Other liabilities	257	241	179	199
Total other liabilities	2,552	3,176	2,414	3,063

Notes to the financial statements

NOTE 22 SUBORDINATED DEBT

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.

CONVERTIBLE 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.

NOTE 23 BRANCH CAPITAL

On 29 June 2001, the Overseas Bank made a capital contribution of \$600 million to the NZ Bank. The capital contribution had no fixed date for repatriation and was non-interest bearing and was, therefore, considered to be an equity instrument. This capital contribution was repatriated to the Overseas Bank on 20 August 2003.

NOTE 24 SUBORDINATED CAPITAL INSTRUMENTS

NZ BANKING GROUP EQUITY HOLDERS

In 1997 the NZ Bank issued \$1,300 million of subordinated capital instruments to Westpac Overseas Funding Pty Limited (an Australian incorporated subsidiary of the Overseas Bank).

The original terms of the issue provided that the capital instruments could be redeemed either in full or in part at the discretion of the Overseas Bank Board of Directors subject to certain conditions.

In July 1999, the NZ Bank redeemed \$400 million of subordinated capital instruments.

On 14 May 2003, the remaining \$900 million of subordinated capital instruments issued by the NZ Bank were redeemed.

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 25 CONVERTIBLE DEBENTURES				
Trust Originated Preferred Securities	-	586	-	586
Westpac Fixed Interest Resetable Trust Securities	715	715	715	715
Trust Preferred Securities	1,279	1,279	1,279	1,279
Total convertible debentures	1,994	2,580	1,994	2,580

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. They represented the proceeds (net of issue costs) of approximately US\$322 million of Trust Originated Preferred Securities ("TOPrSsm") issued by the Overseas Banking Group in the United States of America.

With the prior written consent of APRA, the NZ Bank had the right to elect to redeem the convertible debentures for cash on or after 16 July 2004.

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 25 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	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 26 PROPERTY REVALUATION RESERVE				
Balance at beginning of the year	1	1	-	-
Transfer to retained earnings on sale of property	(1)	-	-	-
Balance at end of the year	-	1	-	-

Notes to the financial statements

	NZ Banking Group	
	2004	2003
	\$m	\$m
NOTE 27 NZ CLASS SHARES		
NZ Class Shares on issue	598	610
NZ Class Shares held as Treasury Stock	(19)	-
NZ Class Shares held as Treasury Stock now cancelled	-	(12)
Balance at end of the year	579	598

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.

As at 30 September 2004, there were 52,635,530 NZ Class Shares on issue (2003: 53,694,931) with 1,059,401 NZ Class Shares held as Treasury Stock (2003: nil).

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 Westpac Banking Corporation 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 Westpac Banking Corporation 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.

EMPLOYEE SHARE OWNERSHIP

In March 2000, the NZ Bank established a staff share scheme and all permanent members of staff were allocated NZ Class Shares in WNZIL. The shares were purchased by the NZ Bank on the market and have the same features as the NZ Class Shares outlined above. The second instalment payable on the shares was settled by the NZ Bank on 20 December 2000. Three further allocations of fully paid shares have been made to staff, occurring in December 2000, December 2001 and December 2002, on the same basis as the original allocation.

In February 2004, the NZ Bank ceased to operate the staff share scheme. There will be no further allocations of fully paid shares to staff under this scheme.

TREASURY STOCK

On 6 May 2004, WNZIL gave notice that it intended to commence an on-market buy-back of approximately one 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. These shares are being held as Treasury Stock. As such, WNZIL has the right to reissue these shares at a later date. These shares represent 1.97% of the NZ Class Shares on issue at the commencement of the buy-back.

Notes to the financial statements

NOTE 27 NZ CLASS SHARES *continued*

On 9 May 2002, WNZIL gave notice that it intended to commence an on-market buy-back of up to 1.5 million NZ Class Shares for a period of six months from 24 May 2002. During the buy-back WNZIL acquired 698,375 NZ Class Shares for a total amount of \$12 million. These shares were initially held as Treasury Stock and on 7 May 2003, WNZIL cancelled the 698,375 NZ Class Shares, reducing the number of shares on issue to 53,694,931.

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 28 COMMITMENTS AND CONTINGENT LIABILITIES				
COMMITMENTS FOR CAPITAL EXPENDITURE				
Due within one year	44	55	40	52
LEASE COMMITMENTS (all leases are classified as operating leases)				
One year or less	32	31	32	31
Between one and two years	26	25	26	25
Between two and five years	49	50	49	50
Over five years	22	34	22	34
Total lease commitments	129	140	129	140
CONTINGENT LIABILITIES				
Direct credit substitutes	372	192	372	192
Transaction related contingent items	535	541	535	541
Trade related contingent liabilities	628	617	628	617
Total contingent liabilities	1,535	1,350	1,535	1,350

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, 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.

On 5 August 2004, the NZ Bank received Notices of Proposed Adjustment ("NOPAs") in respect of three structured finance transactions. On 29 September 2004, the NZ Bank received four further NOPAs in respect of the same three transactions. The NOPAs cover the 1999 to 2002 years and propose tax adjustments of up to approximately \$85 million (or \$113 million with interest) in disputed tax. The total potential disputed tax for these transactions for the 1999 to 2004 tax years is approximately \$97 million (or \$127 million with interest). On 30 September 2004, assessments in relation to these transactions were received in respect of the 1999 year. The additional tax assessed in respect of the transactions for the 1999 year only, is \$18 million (or \$25 million with interest). This amount is included in the maximum liability of \$97 million (\$127 million with interest) detailed above.

The NZ Bank is confident that the original tax treatment applied by it in all cases is correct. 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.

The NZ Bank also 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.

On 21 September 2004, the New Zealand Government announced legislative proposals to address their concerns over the tax effect of transactions of this nature. The new rules will take effect from 1 July 2005. The NZ Bank, along with the rest of the industry, has worked cooperatively with the New Zealand authorities in the development of the new rules.

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 year ended 30 September 2004, the overall primary tax in dispute will be approximately \$548 million (this includes the amounts noted above). With interest this increases to approximately \$647 million.

Notes to the financial statements

NOTE 28 COMMITMENTS AND CONTINGENT LIABILITIES continued

Based on the binding ruling received, the independent tax and legal advice obtained and the acknowledged need for future legislative change, the NZ Bank is confident that the original tax treatment applied by it in all cases is correct.

OTHER CONTINGENT ASSETS AND LIABILITIES

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 \$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 \$7 million (2003: \$27 million) contributed to various funds managed by its wealth management subsidiaries. During the year ended 30 September 2004, a sum of \$20 million was deemed returnable to the NZ Banking Group and was recognised in other non-interest income. \$6 million is included in other assets as at 30 September 2004 (2003: nil). The repayment of the remaining sum is dependent on the future performance of these funds.

OTHER COMMITMENTS

As at 30 September 2004, 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 29. 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.

NOTE 29 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 1998 (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 Westpac 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 29 CREDIT RISK continued

NZ Banking Group 2004

CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,519	0%	-
Long term claims on government	100	10%	10
Claims on banks and New Zealand local authorities	4,592	20%	918
Residential mortgages	18,888	50%	9,444
Other assets	16,078	100%	16,078
Non-risk weighted assets	1,324		-
Total on-balance sheet exposures	42,501		26,450

CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitised mortgages	757	50%	379
Total securitised mortgage exposures	757		379

CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
Total direct credit substitutes	372		372		372
COMMITMENTS					
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%	-
Total commitments	12,136		3,090		3,066

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
Total market related contracts (derivatives)	144,193		2,713		735
Total off-balance sheet exposures	156,701		6,175		4,173
Total risk weighted exposures					31,002

Notes to the financial statements

NOTE 29 CREDIT RISK continued

NZ Banking Group 2003

CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,116	0%	-
Long term claims on government	489	10%	49
Claims on banks and New Zealand local authorities	5,294	20%	1,059
Residential mortgages	16,031	50%	8,016
Other assets	15,150	100%	15,150
Non-risk weighted assets	1,865		-
Total on-balance sheet exposures	39,945		24,274

CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitised mortgages	846	50%	423
Total securitised mortgage exposures	846		423

CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	192	100%	192	100%	192
Total direct credit substitutes	192		192		192
COMMITMENTS					
Commitments with certain drawdown	55	100%	55	100%	55
Housing loan commitments with certain drawdown	25	100%	25	50%	13
Transaction related contingent items	541	50%	271	100%	271
Short term, self liquidating trade related contingent liabilities	617	20%	123	100%	123
Other commitments to provide financial services which have an original maturity of one year or more	4,851	50%	2,426	100%	2,426
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,392	0%	-	0%	-
Total commitments	11,481		2,900		2,888
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	23,838		777	24%	186
Options	25		1	0%	-
Swaps	17,985		1,180	23%	269
Interest rate contracts:					
Forwards	6,324		1	0%	-
Futures	28,285		-	0%	-
Options	685		2	50%	1
Swaps	68,184		1,005	25%	255
Total market related contracts (derivatives)	145,326		2,966		711
Total off-balance sheet exposures	156,999		6,058		3,791
Total risk weighted exposures					28,488

Notes to the financial statements

NOTE 29 CREDIT RISK continued

NZ Bank 2004					
CALCULATION OF ON-BALANCE SHEET EXPOSURES					
	Principal Amount \$m		Risk Weighting		Risk Weighted Exposure \$m
Cash and short term claims on government	1,500		0%		-
Long term claims on government	100		10%		10
Claims on banks and New Zealand local authorities	356		20%		71
Residential mortgages	18,556		50%		9,278
Other assets	21,708		100%		21,708
Non-risk weighted assets	1,237				-
Total on-balance sheet exposures	43,457				31,067
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	757		50%		379
Total securitised mortgage exposures	757				379
CALCULATION OF OFF-BALANCE SHEET EXPOSURES					
	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
Total direct credit substitutes	372		372		372
COMMITMENTS					
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%	-
Total commitments	12,132		3,086		3,062
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	80,556		735	31%	225
Total market related contracts (derivatives)	144,826		2,721		739
Total off-balance sheet exposures	157,330		6,179		4,173
Total risk weighted exposures					35,619

Notes to the financial statements

NOTE 29 CREDIT RISK continued

NZ Bank
2003

CALCULATION OF ON-BALANCE SHEET EXPOSURES	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m		
Cash and short term claims on government	1,116	0%	-		
Long term claims on government	482	10%	48		
Claims on banks and New Zealand local authorities	1,052	20%	210		
Residential mortgages	15,506	50%	7,753		
Other assets	20,115	100%	20,115		
Non-risk weighted assets	1,749		-		
Total on-balance sheet exposures	40,020		28,126		
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	846	50%	423		
Total securitised mortgage exposures	846		423		
CALCULATION OF OFF-BALANCE SHEET EXPOSURES					
	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	192	100%	192	100%	192
Total direct credit substitutes	192		192		192
COMMITMENTS					
Commitments with certain drawdown	52	100%	52	100%	52
Housing loan commitments with certain drawdown	25	100%	25	50%	13
Transaction related contingent items	541	50%	271	100%	271
Short term, self liquidating trade related contingent liabilities	617	20%	123	100%	123
Other commitments to provide financial services which have an original maturity of one year or more	4,851	50%	2,426	100%	2,426
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,392	0%	-	0%	-
Total commitments	11,478		2,897		2,885
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	23,838		777	24%	186
Options	25		1	0%	-
Swaps	17,985		1,180	23%	269
Interest rate contracts:					
Forwards	6,324		1	0%	-
Futures	28,285		-	0%	-
Options	685		2	50%	1
Swaps	69,202		1,017	26%	261
Total market related contracts (derivatives)	146,344		2,978		717
Total off-balance sheet exposures	158,014		6,067		3,794
Total risk weighted exposures					32,343

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 30 CONCENTRATION OF CREDIT EXPOSURES				
ON-BALANCE SHEET CREDIT EXPOSURES CONSIST OF:				
Cash	101	103	101	103
Due from other financial institutions	354	77	353	74
Trading securities	2,653	2,258	2,653	2,258
Loans	36,093	33,361	31,492	28,050
Due from related entities	750	1,233	4,932	5,293
Other assets	1,659	1,956	1,439	1,715
Total on-balance sheet credit exposures	41,610	38,988	40,970	37,493
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY GEOGRAPHICAL AREAS:				
Within New Zealand	36,379	33,266	40,572	37,163
Australia and Asia-Pacific	1,001	1,026	356	330
United Kingdom and Europe	42	-	42	-
North America	4,188	4,696	-	-
Total on-balance sheet credit exposures	41,610	38,988	40,970	37,493
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	1,857	1,842	1,857	1,842
Agriculture	2,618	2,236	2,618	2,236
Other primary industries	420	183	420	183
Commercial and financial	15,066	15,010	10,780	10,166
Real estate - construction	301	297	290	285
Real estate - mortgage	18,901	15,914	18,610	15,430
Instalment loans and other personal lending	1,774	2,431	1,652	2,299
Subtotal	40,937	37,913	36,227	32,441
General provision	(269)	(258)	(262)	(250)
Due from related entities	750	1,233	4,932	5,293
Other assets	192	100	73	9
Total on-balance sheet credit exposures	41,610	38,988	40,970	37,493
OFF-BALANCE SHEET CREDIT EXPOSURES BY CREDIT EQUIVALENT CONSIST OF:				
Contingent liabilities and commitments	3,462	3,092	3,458	3,089
Derivatives	2,713	2,966	2,721	2,978
Total off-balance sheet credit exposures by credit equivalent	6,175	6,058	6,179	6,067
ANALYSIS OF OFF-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	125	117	125	117
Agriculture	28	95	28	95
Other primary industries	15	25	15	25
Commercial and financial	4,211	4,334	4,215	4,343
Real estate - construction	79	65	79	65
Real estate - mortgage	1,709	1,416	1,709	1,416
Instalment loans and other personal lending	8	6	8	6
Total off-balance sheet credit exposures by credit equivalent	6,175	6,058	6,179	6,067

Credit exposure is determined with reference to actual credit exposures.

Notes to the financial statements

NOTE 30 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	
	As at 30 September 2004	As at 30 September 2004	As at 30 September 2003	As at 30 September 2003
10 - 20% of Overseas Banking Group's Equity				
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	
	As at 30 September 2004	As at 30 September 2004	As at 30 September 2003	As at 30 September 2003
10 - 20% of Overseas Banking Group's Equity				
Bank counterparties	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 30 September 2004. The equity used in the 30 September 2003 comparatives was as at 30 September 2003. 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 NZ Banking Group predominantly has its market related contracts (derivatives) with other financial institutions (which include other banks and corporates) and the Overseas Banking Group.

NOTE 31 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 30 September 2004 amounted to \$25,520 million (2003: \$22,733 million).

The Overseas Bank is an "authorised deposit-taking institution" within the meaning of section 13A (3).

Notes to the financial statements

NOTE 31 RANKING OF LOCAL CREDITORS IN A WINDING-UP continued

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.

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
NOTE 32 CONCENTRATION OF FUNDING				
FUNDING CONSISTS OF:				
Due to other financial institutions	1,071	201	1,071	201
Deposits	25,325	22,542	25,320	22,537
Bonds, notes and commercial paper ¹	7,772	8,249	200	197
Due to related entities	569	702	11,243	10,910
Subordinated debt	785	50	785	50
Total funding	35,522	31,744	38,619	33,895
ANALYSIS OF FUNDING BY PRODUCT:				
Saving accounts	1,238	1,323	1,238	1,323
Certificates of deposits	3,311	2,790	3,311	2,790
Demand deposits	7,849	6,370	7,849	6,370
Other deposits and borrowings	20,699	20,308	13,122	12,251
Subordinated debt	785	50	785	50
Subtotal	33,882	30,841	26,305	22,784
Due to other financial institutions	1,071	201	1,071	201
Due to related entities	569	702	11,243	10,910
Total funding	35,522	31,744	38,619	33,895
ANALYSIS OF FUNDING BY GEOGRAPHICAL AREAS¹:				
New Zealand	26,013	22,677	36,512	32,845
Australia and Asia-Pacific	1,322	1,015	1,322	1,050
United Kingdom and Europe	3,075	3,930	-	-
North America	5,112	4,122	785	-
Total funding	35,522	31,744	38,619	33,895
ANALYSIS OF FUNDING BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	1,367	1,033	1,367	1,033
Agriculture	709	348	709	348
Other primary industries	202	164	202	164
Commercial and financial	18,722	16,302	11,145	8,246
Households	13,953	13,195	13,953	13,194
Subtotal	34,953	31,042	27,376	22,985
Due to related entities	569	702	11,243	10,910
Total funding	35,522	31,744	38,619	33,895

1. The geographic region used for bonds, notes and commercial paper is the location in which they were originally issued. These instruments may have subsequently been on-sold.

NOTE 33 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 33 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 Westpac 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.

Notes to the financial statements

NOTE 33 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	NZ Banking Group			
	2004	2004	2003	2003
	Carrying Amount \$m	Estimated Fair Value \$m	Carrying Amount \$m	Estimated Fair Value \$m
FINANCIAL ASSETS				
Cash	101	101	103	103
Due from other financial institutions	354	354	77	77
Trading securities	2,653	2,653	2,258	2,258
Loans	36,093	35,923	33,361	33,327
Due from related entities	750	750	1,233	1,233
Other assets	1,652	1,879	1,956	1,933
Total financial assets	41,603	41,660	38,988	38,931
Non-financial assets	898		957	
Total assets	42,501		39,945	
FINANCIAL LIABILITIES				
Due to other financial institutions	1,071	1,071	201	201
Deposits	25,325	25,334	22,542	22,571
Bonds, notes and commercial paper	7,772	7,775	8,249	8,310
Due to related entities	569	569	702	702
Other liabilities	2,500	2,500	3,091	3,091
Subordinated debt	785	785	50	51
Total financial liabilities	38,022	38,034	34,835	34,926
Non-financial liabilities	52		85	
Total liabilities	38,074		34,920	
NZ Bank				
	2004	2004	2003	2003
	Carrying Amount \$m	Estimated Fair Value \$m	Carrying Amount \$m	Estimated Fair Value \$m
FINANCIAL ASSETS				
Cash	101	101	103	103
Due from other financial institutions	353	353	74	74
Trading securities	2,653	2,653	2,258	2,258
Loans	31,492	31,323	28,050	28,016
Due from related entities	4,932	4,932	5,293	5,293
Other assets	1,439	1,664	1,715	1,688
Total financial assets	40,970	41,026	37,493	37,432
Non-financial assets	2,487		2,527	
Total assets	43,457		40,020	
FINANCIAL LIABILITIES				
Due to other financial institutions	1,071	1,071	201	201
Deposits	25,320	25,329	22,537	22,566
Bonds, notes and commercial paper	200	199	197	199
Due to related entities	11,243	11,247	10,910	10,910
Other liabilities	2,373	2,373	3,014	3,014
Subordinated debt	785	785	50	51
Total financial liabilities	40,992	41,004	36,909	36,941
Non-financial liabilities	41		49	
Total liabilities	41,033		36,958	

Notes to the financial statements

NOTE 34 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 were as follows:

NZ Banking Group 2004								
	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 % ¹
FINANCIAL ASSETS								
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
Total financial assets	19,247	3,613	5,157	11,318	12	2,256	41,603	
Non-financial assets							898	
Total assets							42,501	
FINANCIAL LIABILITIES								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	14,705	5,793	3,420	542	-	865	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
Total financial liabilities	17,255	9,840	5,046	1,167	785	3,929	38,022	
Non-financial liabilities							52	
Total liabilities							38,074	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
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 34 INTEREST RATE RISK *continued*

NZ Banking Group 2003

	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 % ¹
FINANCIAL ASSETS								
Cash	-	-	-	-	-	103	103	-
Due from other financial institutions	-	-	-	-	-	77	77	-
Trading securities	2,205	-	-	-	-	53	2,258	5.4
Loans	14,903	3,718	5,052	9,930	24	(266)	33,361	7.5
Due from related entities	14	-	-	-	-	1,219	1,233	5.3
Other assets	323	-	-	-	-	1,633	1,956	4.9
Total financial assets	17,445	3,718	5,052	9,930	24	2,819	38,988	
Non-financial assets							957	
Total assets							39,945	
FINANCIAL LIABILITIES								
Due to other financial institutions	50	-	-	-	-	151	201	1.2
Deposits	10,896	4,897	3,248	2,555	8	938	22,542	4.0
Bonds, notes and commercial paper	2,802	4,103	1,047	297	-	-	8,249	1.9
Due to related entities	51	-	-	-	-	651	702	5.3
Other liabilities	470	-	-	-	-	2,621	3,091	4.9
Subordinated debt	-	-	50	-	-	-	50	7.5
Total financial liabilities	14,269	9,000	4,345	2,852	8	4,361	34,835	
Non-financial liabilities							85	
Total liabilities							34,920	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
Receivable/(payable)	8,180	(834)	(1,029)	(7,061)	744	-	-	

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

Notes to the financial statements

NOTE 34 INTEREST RATE RISK continued

NZ Bank 2004								
	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 % ¹
FINANCIAL ASSETS								
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
Total financial assets	19,115	3,525	5,104	11,769	12	1,445	40,970	
Non-financial assets							2,487	
Total assets							43,457	
FINANCIAL LIABILITIES								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	14,704	5,789	3,420	542	-	865	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
Total financial liabilities	20,296	9,836	5,046	1,167	785	3,862	40,992	
Non-financial liabilities							41	
Total liabilities							41,033	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
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 34 INTEREST RATE RISK continued

NZ Bank 2003

	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 % ¹
FINANCIAL ASSETS								
Cash	-	-	-	-	-	103	103	-
Due from other financial institutions	-	-	-	-	-	74	74	-
Trading securities	2,205	-	-	-	-	53	2,258	5.4
Loans	14,464	3,498	4,552	5,770	24	(258)	28,050	7.5
Due from related entities	140	-	-	4,611	-	542	5,293	6.7
Other assets	323	-	-	-	-	1,392	1,715	4.9
Total financial assets	17,132	3,498	4,552	10,381	24	1,906	37,493	
Non-financial assets							2,527	
Total assets							40,020	
FINANCIAL LIABILITIES								
Due to other financial institutions	50	-	-	-	-	151	201	1.2
Deposits	10,891	4,897	3,248	2,555	8	938	22,537	4.0
Bonds, notes and commercial paper	-	-	-	197	-	-	197	6.1
Due to related entities	4,953	4,103	1,047	100	-	707	10,910	2.6
Other liabilities	470	-	-	-	-	2,544	3,014	4.9
Subordinated debt	-	-	50	-	-	-	50	7.5
Total financial liabilities	16,364	9,000	4,345	2,852	8	4,340	36,909	
Non-financial liabilities							49	
Total liabilities							36,958	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
Receivable/(payable)	8,603	(1,021)	(653)	(7,062)	133	-	-	

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

Notes to the financial statements

NOTE 35 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 financial year spot foreign exchange rate.

NET OPEN POSITION

	NZ Banking Group		NZ Bank	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Receivable/(payable)				
Australian Dollar	(27)	3	(27)	3
Euro	1	-	1	-
Great Britain Pound	-	1	-	1
Japanese Yen	-	(2)	-	(2)
United States Dollar	(12)	(10)	(12)	(10)
Other	1	2	1	2

NOTE 36 CAPITAL ADEQUACY

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.

	Overseas Banking Group		
	2004 %	2003 %	Minimum Capital Adequacy Ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	6.9	7.2	4.0
Capital, expressed as a percentage of risk weighted exposures	9.7	10.5	8.0

	Overseas Bank		
	2004 %	2003 %	Minimum Capital Adequacy Ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	6.1	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	9.6	10.5	8.0

The Overseas Bank and the Overseas Banking Group exceed the minimum capital adequacy requirements as specified by APRA as at 30 September 2004. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

NOTE 37 SECURITISATION, FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES

SECURITISATION

As at 30 September 2004, the NZ Banking Group had securitised assets amounting to \$757 million (2003: \$846 million) via the Westpac Securitisation Trust programme ("WST programme") and various private placements including 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 37 SECURITISATION, FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES continued

The securities issued by the WST programme and the units issued by 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 were as follows:

	2004	2003
	\$m	\$m
Corporate	96	91
Private and priority	114	112
Retirement plans	408	997
Superannuation funds	225	411
Unit trusts	1,748	1,861
Total funds under management	2,591	3,472

INVOLVEMENT WITH THE NZ BANKING GROUP

The NZ Bank has disclosed under note 28 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.

NOTE 38 SEGMENT INFORMATION

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

Notes to the financial statements

NOTE 39 EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 September 2004, the Overseas Bank has advised Westpac (NZ) Investments Limited that it has the option to trigger an Exchange Event as a consequence of the impact of new Australian tax rules (known as the New Business Tax System (Debt and Equity) Act 2001) becoming law and affecting some payments in the NZ Class Share structure. In the Exchange Deed made by the Overseas Bank in favour of each NZ Class Shareholder, the Overseas Bank has agreed to exchange NZ Class Shares for Westpac ordinary shares upon the occurrence of an Exchange Event.

Under the new law, the Overseas Bank will be subject to franking debits in respect of some payments in the NZ Class Share structure. It is anticipated that franking debits will apply from July 2005. The Overseas Bank is considering its position, including ways to make the structure more efficient, and will provide further information when the position is clearer. It is expected that this should occur no later than the half year profit announcement of the Overseas Bank in May 2005 because of the need for detailed consultations with regulatory and tax authorities in Australia and New Zealand.



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AUDITORS' REPORT

TO THE DIRECTORS OF WESTPAC BANKING CORPORATION

We have audited the financial statements on pages 10 to 61 and the supplementary information contained in the section "Market Risk" on page 6. 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 30 September 2004. This information is stated in accordance with the accounting policies set out on pages 15 to 20.

The financial statements consist of the financial statements of the NZ Bank and the aggregated financial statements of the NZ Banking Group for the year ended 30 September 2004, 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 1998 (the "Order"). The supplementary information in the section "Market Risk" on page 6 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 financial statements which give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 30 September 2004 and their financial performance and cash flows for the year ended on that date. They are also responsible for the preparation and presentation of supplementary information which:

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

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements and supplementary information disclosed in accordance with Clauses 12(1) and 12(3) of the Order and presented to us by the Directors, and for reporting our opinion to you.

We are also responsible for expressing an independent opinion whether the supplementary information disclosed in accordance with Clause 12(4) of the Order and presented to us by the Directors complies with Schedules 7 and 8 of the Order, and for reporting our opinion to you.

BASIS OF OPINION

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

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the NZ Bank and the NZ Banking Group, consistently applied and adequately disclosed.



AUDITORS' REPORT

WESTPAC BANKING CORPORATION

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

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 OPINION

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

In our opinion:

- (a) proper accounting records have been kept by the NZ Bank and the NZ Banking Group as far as appears from our examination of those records; and
- (b) the financial statements on pages 10 to 61:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 30 September 2004 and their financial performance and cash flows for the year ended on that date; and
- (c) the supplementary information required by Clause 12(3) of the Order gives a true and fair view of the matters to which it relates; and
- (d) the supplementary information required by Clause 12(4) of the Order complies with Schedules 7 and 8 of the Order.

Our work was completed on 8 November 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers'.

Chartered Accountants

Auckland

