



Westpac Banking Corporation's general **disclosure statement**



for the year ended **30 September 2003**

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General Information and Definitions

The information contained in this General Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 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 Investment Management - NZ - Limited - Funds management company
 - Westpac Life - NZ - Limited - Life insurance company
 - Westpac Nominees - NZ - Limited - Custodial operations company
 - Westpac Superannuation Nominees - NZ - Limited - Custodial operations 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 2003.

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

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

William Barrett Capp, BE (Civil), BCom, BA.
Non-executive Director
Australia

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

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

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

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

Helen Ann Lynch, AM.
Non-executive Director
Australia

Further biographical information on the Directors of the Overseas Bank is contained in the Overseas Banking Group's 30 September 2003 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 BA, GradDipIR, MAICD, FAIBF, FIPAA.
Chief Executive Officer,
Westpac Banking Corporation,
Auckland, New Zealand

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

CONFLICT OF INTERESTS POLICY

While the Overseas Bank has no formal policy for avoiding or dealing with Directors' conflicts of interest, such conflicts are 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.	BBB	Baa	BBB

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

Credit ratings by 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 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				
Year ended 30 September	Note	2003 \$m	2002 \$m	2001 \$m	2000 \$m	1999 \$m
STATEMENT OF FINANCIAL PERFORMANCE						
Interest income		2,558	2,268	2,326	2,109	1,810
Interest expense		(1,525)	(1,353)	(1,501)	(1,301)	(1,005)
Net interest income		1,033	915	825	808	805
Non-interest income	(i)	538	596	469	459	413
Operating income		1,571	1,511	1,294	1,267	1,218
Non-interest expenses		(699)	(685)	(639)	(656)	(687)
Operating profit before bad and doubtful debts expense		872	826	655	611	531
Bad and doubtful debts expense	(ii)	(205)	(40)	(45)	(32)	(36)
Operating profit before income tax expense		667	786	610	579	495
Income tax expense		(203)	(168)	(131)	(144)	(163)
Operating profit after income tax expense		464	618	479	435	332
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(2)	(4)	(14)	(26)	-
Operating profit after income tax expense attributable to NZ Banking Group equity holders		462	614	465	409	332
Remittance to the Overseas Bank		-	(200)	(67)	(40)	(200)
Dividends paid or provided for on ordinary share capital		(180)	(150)	(105)	(56)	(189)
Dividends paid or provided for on subordinated capital instruments (net of tax)		(27)	(41)	(71)	(59)	(51)
Dividends paid or provided for on convertible debentures (net of tax)		(64)	(33)	(33)	(34)	(7)
Dividends paid or provided for on NZ Class Shares		(44)	(44)	(19)	(55)	-
Operating profit retained/(released)		147	146	170	165	(115)
STATEMENT OF FINANCIAL POSITION						
Total assets		39,692	37,458	38,178	35,017	29,555
Total impaired assets		71	92	146	151	128
Total liabilities		34,667	33,148	34,330	31,416	26,755
Equity	(iii)	5,025	4,310	3,848	3,601	2,800

The amounts for the years ended 30 September have been extracted from the audited financial statements of the NZ Banking Group. Comparatives have been amended to ensure consistent treatment of items 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 the 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 2003: (a) the NZ Bank issued \$1,994 million of convertible debentures (net of issue costs). \$715 million were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and \$1,279 million were issued to JP Morgan Chase as trustee of Tavarua Funding Trust 3; (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.

During the year ended 30 September 1999 the NZ Bank issued \$586 million of convertible debentures (net of issue costs) to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust 1.

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 2003 (30 September 2002 for comparatives).

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 30 September 2003 \$m	30 September 2003 \$m	As at 30 September 2002 \$m	30 September 2002 \$m
Aggregate interest rate exposure	139	193	103	169
As a percentage of the Overseas Banking Group's equity	0.87%	1.21%	0.85%	1.39%
Aggregate foreign currency exposure	1	1	1	18
As a percentage of the Overseas Banking Group's equity	0.01%	0.01%	0.00%	0.15%

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

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

Westpac (NZ) Investments Limited and Westpac Capital - NZ - Limited 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 2003. 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 2003 \$m	30 September 2002 \$m
Westpac Capital - NZ - Limited	227	200
Westpac (NZ) Investments Limited	699	696

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 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.

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 2003 Annual Financial Report. Contingent liabilities for the NZ Bank and the NZ Banking Group are disclosed in note 29 to the consolidated financial statements included in this General Disclosure Statement.

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 is material, relative to its total activities.
2. That the NZ Banking Group's insurance business is not greater than 1% 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 accepting accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
3. That the business of the NZ Bank does not constitute a predominant proportion of the business of the Overseas Banking Group.
4. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
5. 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 37 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

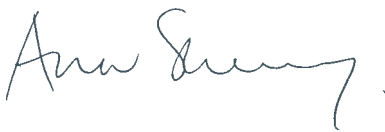
Each Director of the Overseas Bank believes, after due enquiry, that, as at the date on which this General Disclosure Statement is signed:

- (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 2003:

- (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.



Dated this the 30th day of October 2003.

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Statements of Financial Performance

For the year ended 30 September 2003

	Note	NZ Banking Group		NZ Bank	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Interest income	3	2,558	2,268	2,415	2,198
Interest expense	3	(1,525)	(1,353)	(1,628)	(1,501)
Net interest income		1,033	915	787	697
Gain on sale of assets and liabilities	28	-	105	-	-
Non-interest income	4	538	491	481	440
Operating income		1,571	1,511	1,268	1,137
Non-interest expenses	5	(699)	(685)	(727)	(710)
Operating profit before bad and doubtful debts expense		872	826	541	427
Bad and doubtful debts expense	6	(205)	(40)	(199)	(28)
Operating profit before income tax expense		667	786	342	399
Income tax expense	7	(203)	(168)	(42)	(119)
Operating profit after income tax expense		464	618	300	280
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(2)	(4)	-	-
Operating profit after income tax expense attributable to NZ Banking Group equity holders		462	614	300	280

The following notes (numbered 1 to 40) form part of and should be read in conjunction with these financial statements.

Statements of Movements in Equity

For the year ended 30 September 2003

	Note	NZ Banking Group		NZ Bank	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
Balance at beginning of the year		4,310	3,848	2,359	2,353
Operating profit after income tax expense attributable to NZ Banking Group equity holders		462	614	300	280
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		2	4	-	-
Total recognised revenue and expenses		464	618	300	280
Ordinary share capital:					
Dividends paid on ordinary share capital		(180)	(150)	-	-
Redemption of branch capital	23	(600)	-	(600)	-
Subordinated capital instruments - NZ Banking Group equity holders:	24				
Redemption of subordinated capital instruments		(900)	-	(900)	-
Dividends paid or provided for on subordinated capital instruments (net of tax)		(27)	(41)	(27)	(41)
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)		(64)	(33)	(64)	(33)
NZ Class Shares:	27				
Dividends paid on NZ Class Shares		(44)	(44)	-	-
NZ Class Shares repurchased as Treasury Stock		-	(12)	-	-
Aggregation of new entities ¹		80	-	-	-
Other minority interests		(8)	324	-	-
Remittance to the Overseas Bank		-	(200)	-	(200)
		251	(156)	403	(274)
Balance at end of the year		5,025	4,310	3,062	2,359

The following notes (numbered 1 to 40) form part of and should be read in conjunction with these financial statements.

1. 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 2003

	Note	NZ Banking Group		NZ Bank	
		2003 \$m	2002 \$m	2003 \$m	2002 \$m
ASSETS					
Cash		103	112	103	112
Due from other financial institutions	9	1,006	841	1,003	841
Trading securities	10	1,329	1,459	1,329	1,459
Loans	11	33,361	31,449	28,050	25,390
Investment in associate companies (unlisted)	14	-	-	1,777	1,777
Due from related entities	14	980	661	5,040	5,039
Property, plant and equipment	15	227	170	135	95
Intangible assets	16	611	600	516	555
Other assets	17	2,075	2,166	1,814	1,989
Total assets		39,692	37,458	39,767	37,257
Less:					
LIABILITIES					
Due to other financial institutions	18	201	445	201	445
Deposits	19	22,542	22,143	22,537	22,132
Bonds, notes and commercial paper	20	8,249	7,844	197	159
Due to related entities	14	449	528	10,657	9,954
Other liabilities	21	3,176	2,138	3,063	2,158
Total liabilities excluding subordinated bonds		34,617	33,098	36,655	34,848
Subordinated bonds	22	50	50	50	50
Total liabilities		34,667	33,148	36,705	34,898
Net assets		5,025	4,310	3,062	2,359
Represented by:					
EQUITY					
Ordinary share capital		82	2	-	-
Branch capital	23	-	600	-	600
Subordinated capital instruments	24	-	900	-	900
Convertible debentures	25	2,580	586	2,580	586
Property revaluation reserve	26	1	1	-	-
Retained earnings		1,004	857	482	273
Total NZ Banking Group equity		3,667	2,946	3,062	2,359
NZ Class Shares	27	598	598	-	-
Other minority interests		760	766	-	-
Total equity		5,025	4,310	3,062	2,359

The following notes (numbered 1 to 40) form part of and should be read in conjunction with these financial statements.

Statements of Cash Flows

For the year ended 30 September 2003

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest income received	2,559	2,264	2,444	2,194
Non-interest income received	493	408	396	348
Decrease in trading securities and derivative financial instruments	1,304	509	1,174	559
Interest paid	(1,431)	(1,169)	(1,446)	(1,348)
Non-interest expenses paid	(513)	(588)	(757)	(594)
Income tax paid	(180)	(82)	(16)	-
Net cash flows from operating activities	2,232	1,342	1,795	1,159
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of property, plant and equipment	11	58	9	17
Purchase of property, plant and equipment	(127)	(85)	(93)	(61)
Increase in loans	(2,194)	(3,034)	(2,859)	(2,008)
Proceeds from sale of assets and liabilities	-	1,036	-	-
Acquisition of related entities (net of cash acquired)	(75)	-	-	-
Disposal of related entities	70	-	-	-
Movement in other assets	(82)	1	33	16
Net cash flows from investing activities	(2,397)	(2,024)	(2,910)	(2,036)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in due from other financial institutions – term	(187)	(175)	(187)	(175)
Decrease in due to other financial institutions – term	(20)	(29)	(20)	(29)
Increase in deposits	399	1,139	405	1,132
Increase/(decrease) in bonds, notes and commercial paper	405	(44)	38	(129)
(Decrease)/increase in amounts due to and due from related entities	(373)	(187)	711	(106)
Issue of convertible debentures (net of issue costs)	1,994	-	1,994	-
Redemption of subordinated capital instruments	(900)	-	(900)	-
Redemption of branch capital	(600)	-	(600)	-
Dividends paid on ordinary share capital	(180)	(150)	-	-
Dividends paid on subordinated capital instruments	(40)	(76)	(40)	(76)
Dividends paid on convertible debentures	(96)	(62)	(96)	(62)
Dividends paid on NZ Class Shares	(44)	(44)	-	-
Purchase of NZ Class Shares – Treasury Stock	-	(12)	-	-
Remittance to the Overseas Bank	-	(200)	-	(200)
Net cash flows from financing activities	358	160	1,305	355
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	193	(522)	190	(522)
Cash and cash equivalents at beginning of the year	(155)	367	(155)	367
Cash and cash equivalents at end of the year	38	(155)	35	(155)
CASH AND CASH EQUIVALENTS COMPRISE				
Cash	103	112	103	112
Due from other financial institutions – at call	77	99	74	99
Due to other financial institutions – at call	(142)	(366)	(142)	(366)
Cash and cash equivalents at end of the year	38	(155)	35	(155)

Statements of Cash Flows continued

For the year ended 30 September 2003

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$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	462	614	300	280
Adjustments:				
Amortisation of intangible assets	47	44	39	39
General provision establishment	178	-	178	-
Bad and doubtful debts expense	27	40	21	28
Depreciation/amortisation	62	60	43	42
(Gain)/loss on sale of property, plant and equipment	-	(1)	-	1
Gain on sale of assets and liabilities	-	(105)	-	-
Intragroup minority interests in subsidiary companies	2	4	-	-
Movements in accrued assets	87	(20)	113	-
Movements in accrued liabilities	(14)	15	(203)	(5)
Movements in income tax provisions	23	72	25	105
Movements in trading securities and derivative financial instruments	1,358	619	1,279	669
Net cash flows from operating activities	2,232	1,342	1,795	1,159

The following notes (numbered 1 to 40) 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 28 October 2003.

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 and BT Financial Group (NZ) Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition date 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.

PARTICULAR ACCOUNTING POLICIES

Associate Companies

Shares in associate companies are stated at cost. Equity accounting has not been adopted on the grounds of materiality and dividend income only is included in operating profit.

Bad and Doubtful Debts

Throughout each 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 our existing overall loan portfolio that are not yet identifiable. In determining the level of the 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 6 to the financial statements.

Notes to the Financial Statements continued

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

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

Foreign exchange and interest rate forwards, futures, options and forward purchases and sale of securities entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements entered into for trading purposes are valued at their net present value after allowance for future costs and risk exposure. Both realised and unrealised gains and losses on such contracts are included in the statement of financial performance.

Hedging

Contracts entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item, either mark to market or accrual as appropriate.

Income or expenses on derivative financial instruments used to hedge interest rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest rate exposures over the periods covered by the contracts. If an interest rate contract that is used to hedge interest rate risk is terminated early, any resulting gain or loss is deferred and amortised as an adjustment to the yield of the underlying interest rate exposure over the remaining periods originally covered by the terminated contract.

Fees

Fee Income

Application and activity fees are recognised when earned. 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.

Foreign Currency

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.

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.

Funds Management and Trust Activities

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.

Impaired Assets

Impaired assets consist of:

- 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.

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".

Notes to the Financial Statements continued

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

Interest

Interest Income

Interest income is brought to account on an accrual basis. Interest, including premiums and discounts, on trading and investment securities is brought to account on a yield to maturity basis. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against interest income. Such interest is known as "interest revenue forgone" and is calculated using an internal benchmark rate. Unpaid interest relating to prior financial reporting periods is either written off as a bad debt or specific provision.

Interest Expense

Interest expense is brought to account on an accrual basis.

Intangible Assets

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.

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 revalued regularly, where significant, as one class in accordance with valuation reports of independent valuers, to reflect current market values. In addition, whenever the recoverable value of any individual property is determined to be less than its carrying value, such property is revalued down to the recoverable value. Changes in valuations are recorded in the property revaluation reserve. Where this would result in a debit balance in the reserve, the deficit is recognised in the statement of financial performance. Freehold improvements, leasehold improvements, furniture and equipment, motor vehicles and software are carried at cost less depreciation and amounts written off.

Depreciation of property, plant and equipment other than land is calculated on a straight-line basis at rates that will write off the cost of the assets or most recent revaluation, less their residual values, over their estimated useful lives as follows:

Freehold buildings and freehold improvements	Life of each building assessed every five years and on average this approximates 40 years.
Leasehold improvements	Remaining term of lease up to seven years.
Furniture and fittings	Seven years.
Motor vehicles	Seven years.
Equipment	Five years.
Software	Three years.

Gains and losses on disposal of property, plant and equipment are included in operating profit.

Notes to the Financial Statements continued

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

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".

Securitisation

The NZ Banking Group, through its loan securitisation program, packages and sells mortgage loans as securities to investors. In such transactions the NZ Banking Group receives fees for various services provided to the program 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 program 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's 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 benefits scheme is recognised in the statement of financial performance and comprise 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.

Notes to the Financial Statements continued

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

Taxation

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

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

Trading Income

Trading income includes all revenues and expenses (including interest flows) which have been recognised as a result of the NZ Banking Group's trading activities.

Trading Securities

Trading securities are recorded at market value. Gains and losses realised from the sale of trading securities and unrealised market value adjustments are included in the statement of financial performance.

All securities are accounted for on a trade date basis. On the trade date of a purchase, securities are recorded as part of the trading securities portfolio and a liability "securities purchased not delivered" is recognised for the amount payable on settlement of the purchase. On the trade date of a sale, securities are removed from the trading securities portfolio and an asset "securities sold not delivered" is recognised for the amount receivable on settlement of the sale.

CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the financial year. All accounting policies have been applied on a basis consistent with those used in the previous financial year.

Notes to the Financial Statements continued

NOTE 02 RISK MANAGEMENT POLICIES

The NZ Banking Group's exposure to risk arises directly from its role as a financial intermediary and financial markets participant. These activities involve the acceptance of credit, market, liquidity and operational 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.

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 which support that assurance. This is attained through the provision of consolidated certificates by senior management and personal interviews conducted by the Chief Executive Officer for New Zealand, a member of the Group Executive of the Overseas Bank.

This system of management assurance permits the Directors of the Overseas Bank (the "Board") to be satisfied 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.

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.

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

Credit Risk Management Principles

The NZ Banking Group's credit risk management principles set out, in simple terms, the architecture and the core values by which the NZ Banking Group controls credit risk. Within the NZ Banking Group this is a robust system of checks and balances, which ensures objectivity in credit approval decisions, and the control and integrity of the risk management process.

The NZ Banking Group's control environment ensures that common prudential standards and practices are applied across the NZ Banking Group in order to maintain the quality of the lending portfolio.

Credit Policies

Policies covering the broad areas of country risk, industry concentrations and large exposures and delinquency management are used as the principal means of governing exposures. Loan loss provisioning is based on objective statistical assessments known as dynamic provisioning, as discussed below.

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 which 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 Board Credit and Market Risk Committee along with a strategy addressing the ongoing management of the excess.

Dynamic Provisioning for Loan Losses

The Overseas Bank determines the provisions to be held to cover worldwide bad and doubtful debts (including those of the NZ Banking Group), by utilising, as a guide, a statistical process called dynamic provisioning to ensure that appropriate provisions are maintained at all times.

Notes to the Financial Statements continued

NOTE 02 RISK MANAGEMENT POLICIES continued

Dynamic provisioning estimates the expected level of unidentified inherent credit losses from the loan portfolios. Statistical measures based on experience, supplemented by consideration of current market conditions, are used in estimating expected default rates and loss levels. Mass-market consumer loans, such as home loans and personal loans, are analysed by product portfolio. Loans to businesses are graded into different levels of risk, and the loss experience by each risk grade is determined.

The factors used in dynamic provisioning are constantly updated in the light of its evolving loss experience.

Foreign Exchange and Derivative Credit Risk Management

The credit policies for foreign exchange and derivative activities are the same as those governing traditional lending products. Credit limits for all trading activities are set for each customer and are based on the NZ Banking Group's assessment of the customer's credit standing. A real time global limits system records exposure against limits.

Foreign exchange and derivative contracts involve two distinct elements of credit risk: pre-settlement and settlement risk. Pre-settlement risk occurs when the counterparty to a transaction is unable to comply with the terms of the contract and the NZ Banking Group has to replace that contract at the current market value. Settlement risk occurs when the NZ Banking Group pays out funds before it receives payment from the counterparty in the transaction.

In assessing counterparty credit exposure on foreign exchange and derivative transactions for internal credit management purposes the NZ Banking Group considers both the current replacement costs and the potential future credit risk. Potential future credit risk is the estimated "worst case" potential increase in the replacement cost during the contract's life. This is calculated by employing a statistical methodology which uses historical price series and assumes a one standard deviation move for the relevant period of future price exposure. This provides an 84% confidence level that the 'worst case' estimates will not be exceeded at any time over the contract's life. The sum of the current replacement cost and the potential future credit risk is used to measure exposure against limits.

The risk of customer default is reduced by dealing with creditworthy counterparties. The NZ Banking Group's internal credit ratings definitions are similar to those of the external credit rating agencies such as Standard & Poor's and Moody's Investors Service Inc.

To reduce credit risk further, the NZ Banking Group enters into master netting agreements that provide for the offset of contracts with positive and negative market values in the event of default. Netting agreements provide protection from a counterparty selectively honouring only those contracts in its favour.

MARKET RISK

Market risk arises from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices and from changes in balance sheet structure in terms of liquidity and funding.

The NZ Bank segregates the management of market risk arising from trading activities and the market risks arising from other banking activities.

Trading Activities

Trading activities include the NZ Bank financial markets activities and are controlled by a framework of earnings at risk limits approved by the Board. At the Overseas Banking Group level, the Board has overall control of risk policies, methodologies and limits whilst the Board Trading and Market Risk Committee ensures that trading activities and new products are commensurate with the Overseas Banking Group's risk appetite. 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 in conjunction with scenario and stress testing.

Value-at-Risk

The NZ Bank use Value-at-Risk ("VaR") as the primary mechanism for measuring and controlling market risk. VaR is an estimate of the potential loss of earnings, to a 99% confidence level, assuming positions were held unchanged for one day. A historical simulation method is used to calculate VaR taking into account all material market variables.

Actual outcomes are monitored and model assumptions are validated daily. Daily earnings at risk position reports are also produced by risk type and product. These are supplemented by structural reporting, i.e. volume and basis points value limits and advice of loss limits.

The trading risk management unit performs daily stress and regular scenario tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors.

Notes to the Financial Statements continued

NOTE 02 RISK MANAGEMENT POLICIES continued

Other Banking Activities

The Overseas Banking Group's Asset and Liability Committee ("Group ALCO") 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.

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.

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 the NZ Bank's trading operation that are managed under a VaR framework.

A simulation model is used to calculate the NZ Bank's potential net interest income at risk. The net interest income simulation framework combines the 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 different 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 basis point shifts up and down from the current official cash rates in New Zealand. A comparison between the net interest income outcomes from these modelled scenarios indicates the sensitivity to interest rate moves. Both on and off-balance sheet initiatives are then used to achieve stability in net interest income.

The net interest income simulation and limit frameworks established by Group ALCO are reviewed and approved annually by the Overseas Banking Group's Board Credit and Market Risk Committee. This ensures that the key inputs and risk parameters contained in the simulation model remain appropriate to the current and projected market environment and that net interest income at risk and the limits governing these activities remain consistent with overall risk and return parameters.

STRUCTURAL FOREIGN EXCHANGE RISK

Structural foreign exchange risk is managed on a Group basis. Where appropriate the limit framework and policy for the management of this exchange rate risk is set by Group ALCO and reviewed and approved annually by the Overseas Banking Group's Board Credit and Market Risk Committee.

Management of the risk may include the establishment of hedges, primarily in the form of forward foreign exchange transactions.

LIQUIDITY RISK

Liquidity risk is the risk that the NZ Banking Group will not have sufficient funds available to meet its cash flow obligations. The NZ Banking Group's liquidity policies are designed to ensure that it has sufficient funds available to meet these obligations, even in adverse circumstances. This includes advances to customers and repayment of maturing deposits and other liabilities, while raising deposits from a wide range of sources at acceptable cost.

Liquidity is controlled by monitoring and managing the current and future cash flows to contain the net cash outflow position during specified time intervals within acceptable parameters. The management process involves ensuring enough cash is available to maintain the business of the bank modelled using varying assumptions.

The liquidity policy framework is established by Group ALCO. The liquidity position is independently monitored to ensure there is no undue concentration or reliance upon funding from particular investor groups, geographies, tenor, type of instrument or currency and reported to NZ ALCO on a regular basis.

As at 30 September 2003 the NZ Banking Group held liquid assets of \$1,918 million (2002: \$1,513 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.

Notes to the Financial Statements continued

NOTE 02 RISK MANAGEMENT POLICIES continued

OPERATIONAL RISK

Operational risk is the potential exposure to financial, reputational or other damage arising from the way in which the NZ Banking Group pursues its business objectives.

Each business area is responsible for the development of a control framework and the monitoring of operational risk and active promotion of a strong risk management culture. On a quarterly basis, management of each of the business areas formally reports 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, risk management, compliance and internal audit. The results of this process are reported to the Chief Executive Officer for New Zealand.

The NZ Banking Group's control environment is enhanced by staff competency, development and supervision, together with management's philosophy and operating style. Corporate policy guidance ensures consistency in approach across business functions and distribution channels. A set of group control and compliance principles provides prudent standards of control.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change implementation disciplines and business continuity and contingency planning. Where appropriate, this is supported by risk transfer mechanisms such as insurance.

The NZ Banking Group's internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports the results to the Board Audit and Compliance Committee.

Internal Audit

The NZ Banking Group has an independent internal audit unit which reports, through the Overseas Banking Group's internal audit unit, to the Board Audit and Compliance Committee.

The Board Audit and Compliance Committee 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, the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, and the activities of the Overseas Banking Group's internal and external auditors, as well as monitoring the relationship between management and the external auditors.

The internal audit unit, 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 scope and frequency of individual audits is determined by the level of business risk. The review of internal controls relating to the risk management policies described above is included within this scope.

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.

Internal audit annually reviews the adequacy and effectiveness of the market risk and liquidity systems controls.

The Overseas Banking Group's portfolio risk review unit has a rolling review programme throughout the 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 biannually by internal audit.

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

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.

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 03 INTEREST				
INTEREST INCOME				
Loans	2,550	2,257	2,125	1,842
Impaired assets	3	5	3	5
Related entities	-	5	284	349
Other	5	1	3	2
Total interest income	2,558	2,268	2,415	2,198
INTEREST EXPENSE				
Deposits and bills payable	1,165	958	1,165	957
Bonds, notes and commercial paper	155	192	14	9
Related entities	5	2	249	339
Subordinated bonds	4	4	4	4
Other	196	197	196	192
Total interest expense	1,525	1,353	1,628	1,501

The amount classified as "Other interest expense" included items relating to the hedging of structural balance sheet interest rate and foreign exchange risk.

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 2003, interest income of \$421 million (2002: \$152 million) and interest expense of \$161 million (2002: \$94 million) had been set-off. This resulted in net interest income of \$260 million (2002: \$58 million) which had been included in interest income from loans. There is no set-off amount in the NZ Bank.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 04 NON-INTEREST INCOME				
Lending fees (loan and risk)	91	70	91	70
Net transaction fees and commissions received	230	220	226	211
Other non-risk fee income	51	51	50	43
Wealth management income	68	58	-	-
Insurance commissions and premiums (net of claims)	5	4	4	4
Trading income:				
Foreign exchange trading	51	62	51	62
Other trading	34	17	34	17
Management fees received from related entities	-	-	25	32
Other	8	9	-	1
Total non-interest income	538	491	481	440

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 05 NON-INTEREST EXPENSES				
Amortisation of intangible assets	47	44	39	39
Auditors' remuneration	1	1	1	1
Depreciation and amortisation:				
Leasehold improvements	10	10	-	-
Furniture and fittings	9	12	1	5
Computer equipment and software	43	38	42	37
Equipment expenses	10	12	7	9
Lease and rental expenses	50	54	8	11
Related entities:				
Subvention payments	-	-	64	57
Other related entities expenses	15	14	78	82
Salaries	261	259	253	255
Other staff expenses	36	33	36	32
Consultancy fees and other professional services	114	88	100	78
Communications, advertising and stationery	68	80	65	74
Other	35	40	33	30
Total non-interest expenses	699	685	727	710

For the year ended 30 September 2003 auditors' remuneration included audit fees of \$591,000 (2002: \$519,000) for the NZ Bank and \$614,000 (2002: \$542,000) for the NZ Banking Group. Auditors' remuneration also included fees for other services for the year ended 30 September 2003 of \$490,000 (2002: \$646,000) for the NZ Bank and \$572,000 (2002: \$790,000) for the NZ Banking Group.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 06 BAD AND DOUBTFUL DEBTS EXPENSE				
Specific provisions	15	13	15	12
Specific provisions no longer required	(15)	(15)	(15)	(15)
General provision	9	(2)	9	(4)
Write-offs direct	44	57	38	45
Recoveries	(26)	(13)	(26)	(10)
Bad and doubtful debts expense before additional general provision	27	40	21	28
Additional general provision	178	-	178	-
Total bad and doubtful debts expense	205	40	199	28

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

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 07 INCOME TAX				
INCOME TAX EXPENSE				
Operating profit before income tax expense	667	786	342	399
Prima facie income tax expense at 33 percent:	220	259	113	132
(Less)/add income tax effect of:				
Exempt dividends	(22)	(51)	-	-
Non-assessable income	(7)	(6)	-	-
Non-deductible expenses	14	22	13	19
Sale of assets and liabilities	-	(38)	-	-
Other items	(2)	(18)	(84)	(32)
Income tax expense	203	168	42	119
Comprising:				
Current income tax	273	211	104	155
Deferred income tax	(10)	(51)	(3)	(39)
Future income tax benefit	(60)	8	(59)	3
Income tax expense	203	168	42	119
DEFERRED INCOME TAX				
Balance at beginning of the year	33	84	17	56
Current year timing differences	(10)	(51)	(3)	(39)
Balance at end of the year	23	33	14	17
FUTURE INCOME TAX BENEFIT				
Balance at beginning of the year	49	81	40	43
Current year timing differences	60	(8)	59	(3)
Other movements	10	(24)	-	-
Balance at end of the year	119	49	99	40

The balance of the dividend withholding payment account as at 30 September 2003 was nil (2002: nil) and there was no movement during the year ended 30 September 2003 (2002: nil).

	NZ Banking Group	
	2003 \$m	2002 \$m
NOTE 08 IMPUTATION CREDIT ACCOUNT		
Balance at the beginning of the year	83	126
Imputation credits attached to dividends received during the year	2	3
Imputation credits attached to dividends paid during the year	(78)	(68)
Income tax payments during the year	48	24
Other movements	-	(2)
Balance at end of the year	55	83

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

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 09 DUE FROM OTHER FINANCIAL INSTITUTIONS				
At call	77	99	74	99
Term	929	742	929	742
Total due from other financial institutions	1,006	841	1,003	841
NOTE 10 TRADING SECURITIES				
Treasury bills	987	771	987	771
Commercial paper	69	147	69	147
New Zealand Government stock	128	440	128	440
Other trading securities	145	101	145	101
Total trading securities	1,329	1,459	1,329	1,459

Included in trading securities, as at 30 September 2003, of the NZ Banking Group and NZ Bank were assets of \$416 million encumbered through repurchase agreements (2002: \$113 million).

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 11 LOANS				
Loans and other receivables	33,627	31,035	28,308	25,465
Redeemable preference share finance	-	500	-	-
Total gross loans	33,627	31,535	28,308	25,465
Provisions for bad and doubtful debts (refer to note 12)	(266)	(86)	(258)	(75)
Total net loans	33,361	31,449	28,050	25,390

Movements in impaired assets and provisions for bad 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. The loans of \$3,650 million (2002: \$3,650 million) have been offset against the related borrowings of \$3,590 million (2002: \$3,590 million) in the statement of financial position. Related income and expense flows have 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 continued

NZ Banking Group

	2003 Non-accrual assets \$m	2003 Restructured assets \$m	2003 Total \$m	2002 Non-accrual assets \$m	2002 Restructured assets \$m	2002 Total \$m
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NOTE 12 IMPAIRED ASSETS

Gross impaired assets	71	-	71	91	1	92
Specific provisions	(8)	-	(8)	(15)	-	(15)
Net impaired assets	63	-	63	76	1	77

GROSS IMPAIRED ASSETS

Balance at beginning of the year	91	1	92	145	1	146
Additions	47	-	47	89	-	89
Amounts written off	(10)	(1)	(11)	(41)	-	(41)
Returned to performing or repaid	(57)	-	(57)	(102)	-	(102)
Balance at end of the year	71	-	71	91	1	92

Interest forgone for the year on the above impaired assets

2 4

SPECIFIC PROVISIONS

Balance at beginning of the year	15	-	15	38	-	38
Charge to statement of financial performance	15	-	15	13	-	13
Specific provisions no longer required	(15)	-	(15)	(15)	-	(15)
Provisions transferred	-	-	-	(6)	-	(6)
Bad debts written off	(7)	-	(7)	(15)	-	(15)
Balance at end of the year	8	-	8	15	-	15

GENERAL PROVISION

Balance at beginning of the year			71			73
Charge to statement of financial performance			187			(2)
Balance at end of the year			258			71

PAST DUE ASSETS

Balance at beginning of the year			247			311
Additions			47			76
Deletions			(97)			(140)
Balance at end of the year			197			247

There are no unrecognised impaired assets.

Notes to the Financial Statements continued

NOTE 12 IMPAIRED ASSETS continued

	NZ Bank					
	2003	2003	2003	2002	2002	2002
	Non-accrual assets \$m	Restructured assets \$m	Total \$m	Non-accrual assets \$m	Restructured assets \$m	Total \$m
Gross impaired assets	67	-	67	82	1	83
Specific provisions	(8)	-	(8)	(12)	-	(12)
Net impaired assets	59	-	59	70	1	71
GROSS IMPAIRED ASSETS						
Balance at beginning of the year	81	1	82	123	1	124
Additions	47	-	47	83	-	83
Amounts written off	(8)	(1)	(9)	(33)	-	(33)
Returned to performing or repaid	(53)	-	(53)	(92)	-	(92)
Balance at end of the year	67	-	67	81	1	82
Interest forgone for the period on the above impaired assets			2			3
SPECIFIC PROVISIONS						
Balance at beginning of the year	12	-	12	25	-	25
Charge to statement of financial performance	15	-	15	11	-	11
Specific provisions no longer required	-	-	-	(15)	-	(15)
Provisions transferred	(15)	-	(15)	-	-	-
Bad debts written off	(4)	-	(4)	(9)	-	(9)
Balance at end of the year	8	-	8	12	-	12
GENERAL PROVISION						
Balance at beginning of the year			63			67
Charge to statement of financial performance			187			(4)
Balance at end of the year			250			63
PAST DUE ASSETS						
Balance at beginning of the year			234			282
Additions			45			61
Deletions			(93)			(109)
Balance at end of the year			186			234

There are no unrecognised impaired assets.

In previous financial periods, the Overseas Banking Group held a general provision in respect of its global loan portfolio, which included a provision for the NZ Banking Group. 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 general provision in the NZ Banking Group as at 30 September 2003 was \$258 million (2002: \$71 million). The general provision held by the Overseas Bank in respect of the NZ Banking Group at 30 September 2002 was A\$125 million. Therefore, the combined general provision held by both the Overseas Bank and the NZ Banking Group as at 30 September 2002 was \$217 million.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 13 INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES				
Total interest bearing assets	36,125	33,688	35,587	32,546
Total interest bearing liabilities	30,474	29,360	32,569	31,048

Notes to the Financial Statements continued

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, its subsidiary BT Funds Management (NZ) Limited and Westpac Group Investment - 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. All NZ Banking Group subsidiaries are 100% owned unless otherwise stated. Electric Investment (ANZ) Incorporated, First Data Capital, Inc., 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 and First Data Capital, Inc. have 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.

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited (formerly Australian Guarantee Corporation (N.Z.) Limited)	Finance company	
Augusta Equities Limited (formerly AGC Equities Limited)	Finance company	
Westpac Tasman No. 2 Pty Limited	Finance company	
Mortgage Services Limited	Amalgamated 30 September 2003 into Westpac Holdings - NZ - Limited	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
Electric Investment (ANZ) Incorporated *	Finance company	60 percent owned
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
First Data Capital, Inc.*	Finance company	60 percent owned
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 (formerly WestpacTrust Capital - NZ - Limited)	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
C.B.A. Finance Nominees Limited	Amalgamated 30 September 2003 into Westpac Capital - NZ - Limited	
Sfaka Investments Limited	Finance company	
Systems and Technology Limited	Amalgamated 30 September 2003 into Westpac Capital - NZ - Limited	
Westpac Funds Acceptances - NZ - Limited	Finance company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Limited	Finance company	
Bag Inns Two Limited	Finance company	
Bag Inns Three Limited	Amalgamated 30 September 2003 into Westpac Lease Discounting - NZ - Limited	
Toliman Investments Limited	Sold 15 November 2002	
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	Purchased 8 August 2002
Willowemoc Partners *	Finance partnership	76 percent owned
Westpac Overseas Investments Limited (formerly WestpacTrust Overseas Investments Limited)	Finance company	67 percent owned
Hudson Loft Finance LLC *	Finance company	Purchased 17 July 2002
Westpac Life - NZ - Limited (formerly WestpacTrust Life - NZ - Limited)	Life insurance company	60 percent owned
Westpac Nominees - NZ - Limited	Nominee company	
Westpac Superannuation Nominees - NZ - Limited (formerly WestpacTrust Superannuation Nominees - NZ - Limited)	Nominee company	

Notes to the Financial Statements continued

NOTE 14 RELATED ENTITIES continued

Name of Subsidiary	Principal Activity	Notes
Westpac Investment Management - NZ - Limited (formerly WestpacTrust Investment Management - NZ - Limited)	Investment management company	
Westpac Finance Limited	Finance company	
Ngauranga Gorge Limited	Liquidated 12 July 2002	
Yasmin Properties Limited	Liquidated 7 August 2002	
Westpac (NZ) Investments Limited (formerly WestpacTrust 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.

ASSOCIATES

Name of Associate	Equity Interest	Balance Date	Principal Activity
Canterbury Technology Park Board	45%	31 March	Regional development
Electronic Transaction Services Limited	25%	31 March	EFTPOS operator
Visa New Zealand Limited	20%	30 September	Credit card services

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

On 31 October 2002, an NZ Banking Group subsidiary, Westpac Holdings - NZ - Limited, acquired BT Financial Group (NZ) Limited (a holding company) which included 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 has resulted in a decrease in assets of \$9 million and an increase in equity of \$80 million. There was no net material impact on the statement of financial performance from either of these transactions.

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

During the year ended 30 September 2002:

- A NZ Banking Group subsidiary Westpac Financial Synergy Limited acquired a controlling interest in NZA Overseas Funding for \$1,000 million. This resulted in an increase in assets of \$1,330 million and an increase of \$330 million in the minority interest for the NZ Banking Group.
- Another NZ Banking Group subsidiary Westpac Overseas Investments Limited acquired a controlling interest in Hudson Loft Finance LLC for \$1,500 million. This resulted in an increase in assets of \$1,500 million.

Notes to the Financial Statements continued

NOTE 14 RELATED ENTITIES continued

NATURE OF TRANSACTIONS

Loan finance, current account banking facilities and other financial products are provided by the NZ Bank to related entities on normal commercial terms with the exception of the redeemable preference shares as discussed below.

Certain redeemable preference shares issued by related entities are classified as amounts due to related entities in the statement of financial position. Dividends payable on these redeemable preference shares are discretionary. 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.

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.

Management fees are paid by related entities to the NZ Bank for certain operating costs incurred by the NZ Bank. During the year ended 30 September 2003 the NZ Bank was charged \$67 million (2002: \$50 million) of rent by Westpac (NZ) Investments Limited.

	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						
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
2002						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	2	-	2	2	-	2
Leasehold improvements	108	(56)	52	1	-	1
Furniture and fittings	88	(65)	23	9	(8)	1
Computer equipment and software	227	(135)	92	223	(132)	91
Total property, plant and equipment	426	(256)	170	235	(140)	95

Freehold land and buildings are revalued in accordance with valuation reports by the independent registered valuers employed by DTZ Darroch Limited. These valuers are registered with the New Zealand Valuations Board. The most recent valuation which covered freehold land and buildings was as at 30 September 2001.

Valuations are based on the estimated net current value calculated on the assumption that the properties are sold on the open market, subject to existing tenancies and without the benefit of any leaseback contract or similar arrangement in place.

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 16 INTANGIBLE ASSETS				
Gross amount at beginning of the year	878	878	783	783
Accumulated amortisation at beginning of the year	(278)	(234)	(228)	(189)
Additional goodwill recognised during the year	67	-	-	-
Goodwill derecognised on sale of a subsidiary	(64)	-	-	-
Goodwill recognised on aggregation of new entities	55	-	-	-
Amortisation recognised during the year	(47)	(44)	(39)	(39)
Balance at end of the year	611	600	516	555
Comprising:				
Gross amount	936	878	783	783
Accumulated amortisation	(325)	(278)	(267)	(228)
	611	600	516	555
NOTE 17 OTHER ASSETS				
Accrued interest receivable	133	136	83	90
Future income tax benefit	119	49	99	40
Current income tax receivable	-	-	12	-
Life insurance assets	86	64	-	-
Securities sold not delivered	59	403	59	403
Securities purchased under agreements to resell	323	330	323	330
Other financial markets assets	1,255	1,070	1,229	1,064
Other assets	100	114	9	62
Total other assets	2,075	2,166	1,814	1,989
NOTE 18 DUE TO OTHER FINANCIAL INSTITUTIONS				
At call	142	366	142	366
Term	59	79	59	79
Total due to other financial institutions	201	445	201	445

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 19 DEPOSITS				
Secured deposits	-	1	-	-
Unsecured deposits	22,542	22,142	22,537	22,132
Total deposits	22,542	22,143	22,537	22,132

DEPOSITS OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

	NZ Banking Group			
	2003	2003	2002	2002
	Total \$m	Weighted Average Interest Rate %	Total \$m	Weighted Average Interest Rate %
Secured deposits				
One year or less	-		1	
Between one and two years	-		-	
Between two and five years	-		-	
Total secured deposits	-		1	
Unsecured deposits				
One year or less	21,998		21,270	
Between one and two years	378	5.1	462	6.0
Between two and five years	166	6.1	410	6.2
Total unsecured deposits	22,542		22,142	

Secured deposits relate to Augusta (1962) Limited and are secured by a floating charge over the deposit funds of that company.

DEPOSITS OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank			
	2003	2003	2002	2002
	Total \$m	Weighted Average Interest Rate %	Total \$m	Weighted Average Interest Rate %
Unsecured deposits				
One year or less	21,993		21,260	
Between one and two years	378	5.1	462	6.0
Between two and five years	166	6.1	410	6.2
Total unsecured deposits	22,537		22,132	

Notes to the Financial Statements continued

	NZ Banking Group			
	2003	2003	2002	2002
	Total	Weighted Average Interest Rate	Total	Weighted Average Interest Rate
	\$m	%	\$m	%

NOTE 20 BONDS, NOTES AND COMMERCIAL PAPER

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

	2003	2003	2002	2002
	Total	Weighted Average Interest Rate	Total	Weighted Average Interest Rate
	\$m	%	\$m	%
One year or less	5,406		5,105	
Between one and two years	1,443	1.5	1,362	3.0
Between two and five years	1,400	4.1	1,377	1.9
Total bonds, notes and commercial paper	8,249		7,844	

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

	NZ Bank			
	2003	2003	2002	2002
	Total	Weighted Average Interest Rate	Total	Weighted Average Interest Rate
	\$m	%	\$m	%
One year or less	-		60	
Between one and two years	97	6.0	-	-
Between two and five years	100	6.2	99	5.5
Total bonds, notes and commercial paper	197		159	

NOTE 21 OTHER LIABILITIES

	NZ Banking Group		NZ Bank	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Accrued interest payable	154	160	120	129
Current income tax payable	13	1	-	97
Provision for staff benefits	37	37	35	37
Provision for deferred income tax	23	33	14	17
Policyholder liabilities	1	4	-	-
Claims reserves	12	10	-	-
Securities purchased not delivered	113	261	113	261
Securities sold short	54	202	54	203
Securities sold under agreements to repurchase	416	113	416	113
Other financial markets liabilities	2,112	1,123	2,112	1,123
Other liabilities	241	194	199	178
Total other liabilities	3,176	2,138	3,063	2,158

NOTE 22 SUBORDINATED BONDS

The subordinated bonds on issue as at 30 September 2003 have a face value of \$50 million and carry a fixed rate coupon of 7.59% p.a. which applies until 15 July 2004, at which time an early repayment option is exercisable by the NZ Bank. If the early repayment option is not exercised, the coupon rate will reset for a further five years on a three-month bank bill floating rate basis plus a margin until the maturity date of 15 July 2009. These bonds were issued at par.

The subordinated bonds are subordinated to all other obligations of the NZ Banking Group with the exception of any equity instruments.

Notes to the Financial Statements continued

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 (the "Board") on 30 June and 31 December under the following conditions:

- the NZ Bank will be solvent post-redemption;
- there are no liabilities of the NZ Bank due and unpaid or unsatisfied in aggregate which exceed 0.5% of the NZ Bank's gross assets;
- notice is given to Westpac Overseas Funding Pty Limited; and
- if the proposed redemption is within ten years of issue, Westpac Overseas Funding Pty Limited consents.

In July 1999, an amendment to the terms of the capital instruments added an alternative redemption procedure. The amendment allowed the NZ Bank and Westpac Overseas Funding Pty Limited to agree any date at any time to a redemption date, whether prior to the ten-year period, or after the ten-year period, provided the two solvency conditions noted above are satisfied.

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. The redemption was subject to the Board being satisfied on reasonable grounds on the redemption date that the redemption of the subordinated capital instruments would not breach the solvency conditions noted above. The redemption of the subordinated capital instruments was agreed to by the Board of Westpac Overseas Funding Pty Limited.

The redemption provided for the return of the maximum dividend payable (in respect of the final return period) to be distributed on the redemption date. The maximum rate on the redemption date was 7.125% (30 September 2002: 7.165%).

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 25 CONVERTIBLE DEBENTURES				
Trust Originated Preferred Securities	586	586	586	586
Fixed Interest Resettable Trust Securities	715	-	715	-
Trust Preferred Securities	1,279	-	1,279	-
Balance at end of the year	2,580	586	2,580	586

TRUST ORIGINATED PREFERENCE SECURITIES

In 1999, the NZ Bank has issued 8% Junior Subordinated Convertible Debentures to the Chase Manhattan Bank as trustee of Tavarua Funding Trust 1 ("Funding Trust"). These debentures are convertible on 16 July 2049 into Overseas Bank preference shares ("preference shares"). They represent 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.

The convertible debentures are subordinated to the rights of all depositors and other creditors including subordinated creditors and the rights of the holders of any shares expressed to rank in priority to the preference shares. The convertible debentures will only pay a distribution to the extent it is declared by the Board of Directors, or an authorised committee of the Board. If certain conditions exist a distribution is not permitted to be declared unless approved by the Australian Prudential Regulation Authority ("APRA").

Notes to the Financial Statements continued

NOTE 25 CONVERTIBLE DEBENTURES continued

The convertible debentures will automatically convert into American Depositary Receipts ("ADRs") representing the Overseas Bank's preference shares (8% non-cumulative preference shares in the Overseas Bank with a liquidation preference of US\$25 per share) on 16 July 2049, or earlier in the event that a distribution is not made or certain other events occur. The dividend payment dates on the Overseas Bank preference shares will be the same days of the year as the distribution payment dates of the TOPrS. The TOPrS will then be redeemed for ADRs. The NZ Bank has entered a currency swap with 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 Funding Trust.

The NZ Bank has guaranteed, on a subordinated basis, the payment in full of distributions or redemption amounts, the delivery of ADRs and other payments on the TOPrS to the extent that Funding Trust has funds available.

With the prior written consent of APRA, if required, the NZ Bank may elect to redeem the convertible debentures for cash before 16 July 2004 in whole upon the occurrence of certain specific events, and in whole or in part on one or more occasions any time on or after 16 July 2004. The proceeds received by Funding Trust from the redemption of the convertible debentures must be used to redeem the TOPrS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

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 Resettable 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.

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 ("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 the NZ Bank's certain 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.

Notes to the Financial Statements continued

NOTE 25 CONVERTIBLE DEBENTURES continued

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 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 TPS. The dividend payment rate on the Overseas Bank preference shares will also be the same as that applicable to 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 TPS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 26 PROPERTY REVALUATION RESERVE				
Balance at beginning of the year	1	12	-	-
Transfer to retained earnings on sale of property	-	(11)	-	-
Balance at end of the year	1	1	-	-
			NZ Banking Group	
			2003 \$m	2002 \$m

NOTE 27 NZ CLASS SHARES

NZ Class Shares issued	610	610
NZ Class Shares held as Treasury Stock	-	(12)
NZ Class Shares held as Treasury Stock now cancelled	(12)	-
Balance at end of the year	598	598

On 12 October 1999, a controlled entity, Westpac (NZ) Investments Limited ("WNZI"), 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 2003 there were 53,694,931 NZ Class Shares on issue (2002: 54,393,306) with no NZ Class Shares held as Treasury Stock (2002: 698,375).

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 WNZI 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 WNZI, 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 WNZI 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 WNZI, earnings of WNZI 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.

Notes to the Financial Statements continued

NOTE 27 NZ CLASS SHARES continued

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 WNZI. The shares were purchased by the NZ Bank on the market and have the same features as the NZ Class Shares outlined above. The balance payable on the shares was settled by the NZ Bank on 20 December 2000. Depending on the future performance of WNZI shares, NZ Bank staff will receive further allocations of these shares on an annual basis.

The NZ Bank may alter or cancel the staff share scheme at any time should it consider that the scheme is no longer appropriate.

TREASURY STOCK

On 9 May 2002, WNZI 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 WNZI acquired 698,375 NZ Class Shares for a total amount of \$12.2 million. These shares were not cancelled immediately and were held as Treasury Stock. As such, WNZI had the right to reissue these shares at a later date. These shares represented 1.28% of the NZ Class Shares on issue at the commencement of the buy-back. As at 14 August 2002 the share buy-back scheme ceased.

On 7 May 2003, WNZI cancelled the 698,375 NZ Class Shares that were being held as Treasury Stock, reducing the number of shares on issue to 53,694,931.

NOTE 28 SALE OF ASSETS AND LIABILITIES

On 31 May 2002, the NZ Banking Group sold certain assets and liabilities of Australian Guarantee Corporation (N.Z.) Limited to GE Finance and Insurance. The total gain on sale from this transaction was \$105 million, net of transactional and disposal costs. The reduction in net loans for the NZ Banking Group from the sale was \$916 million.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 29 COMMITMENTS AND CONTINGENT LIABILITIES				
COMMITMENTS FOR CAPITAL EXPENDITURE				
Due within one year	55	71	52	-
LEASE COMMITMENTS (all leases are classified as operating leases)				
One year or less	31	30	31	30
Between one and two years	25	25	25	25
Between two and five years	50	49	50	49
Over five years	34	33	34	33
Total lease commitments	140	137	140	137
CONTINGENT LIABILITIES				
Direct credit substitutes	192	138	192	138
Transaction related contingent items	541	309	541	309
Trade related contingent liabilities	617	228	617	228
Total contingent liabilities	1,350	675	1,350	675

The NZ Banking Group has indemnities from customers and others in respect of a major portion of the above contingent liabilities.

OTHER CONTINGENT ASSETS AND LIABILITIES

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these claims has been made on a case-by-case basis and provision has been made where appropriate. The NZ Bank has entered into six contracts with overseas companies for the provision of custodial services where the overseas companies are restricted to appointing custodians with a certain level of capital.

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.

Notes to the Financial Statements continued

NOTE 29 COMMITMENTS AND CONTINGENT LIABILITIES continued

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

The NZ Banking Group has a contingent asset in respect of \$27 million contributed to various funds managed by its wealth management subsidiaries. The repayment of this sum is dependent on the future performance of these funds.

OTHER COMMITMENTS

As at 30 September 2003 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 30. 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 30 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 Reserve Bank of New Zealand's Capital Adequacy 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 (WNZI) and the NZ Bank in which WNZI will receive payments based on the dividend paid on Westpac Ordinary Shares. The purpose of this swap is to enable WNZI 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 1.

Notes to the Financial Statements continued

NOTE 30 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	14,897	100%	14,897
Non-risk weighted assets	1,865		-
Total on-balance sheet exposures	39,692		24,021

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%	187
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		712
Total off-balance sheet exposures	156,999		6,058		3,792
Total risk weighted exposures					28,236

Notes to the Financial Statements continued

NOTE 30 CREDIT RISK continued

NZ Banking Group 2002

CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,010	0%	-
Long term claims on government	1,054	10%	105
Claims on banks and New Zealand local authorities	5,639	20%	1,128
Residential mortgages	14,315	50%	7,157
Other assets	13,771	100%	13,771
Non-risk weighted assets	1,669		-
Total on-balance sheet exposures	37,458		22,161

CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitized mortgages	955	50%	478
Total securitized mortgage exposures	955		478

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	138	100%	138	100%	138
Total direct credit substitutes	138		138		138

COMMITMENTS

Commitments with certain drawdown	71	100%	71	100%	71
Housing loan commitments with certain drawdown	19	100%	19	50%	10
Transaction related contingent items	309	50%	154	100%	154
Short term, self liquidating trade related contingent liabilities	228	20%	46	100%	46
Other commitments to provide financial services which have an original maturity of one year or more	3,859	50%	1,930	100%	1,930
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,672	0%	-	0%	-
Total commitments	11,158		2,220		2,211

MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	24,434		652	25%	160
Options	-		-	0%	-
Swaps	17,116		1,195	24%	285
Interest rate contracts:					
Forwards	10,382		4	21%	1
Futures	4,415		-	0%	-
Options	1,026		4	39%	2
Swaps	57,599		799	26%	209
Total market related contracts (derivatives)	114,972		2,654		657
Total off-balance sheet exposures	126,268		5,012		3,006
Total risk weighted exposures					25,645

Notes to the Financial Statements continued

NOTE 30 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	19,862		100%		19,862
Non-risk weighted assets	1,749				-
Total on-balance sheet exposures	39,767				27,873
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%	187
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		718
Total off-balance sheet exposures	158,014		6,067		3,795
Total risk weighted exposures					32,091

Notes to the Financial Statements continued

NOTE 30 CREDIT RISK continued

NZ Bank					
2002					
CALCULATION OF ON-BALANCE SHEET EXPOSURES					
	Principal Amount \$m		Risk Weighting		Risk Weighted Exposure \$m
Cash and short term claims on government	1,009		0%		-
Long term claims on government	1,049		10%		105
Claims on banks and New Zealand local authorities	864		20%		173
Residential mortgages	13,646		50%		6,823
Other assets	19,071		100%		19,071
Non-risk weighted assets	1,618				-
Total on-balance sheet exposures	37,257				26,172
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	955		50%		478
Total securitised mortgage exposures	955				478
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	138	100%	138	100%	138
Total direct credit substitutes	138		138		138
COMMITMENTS					
Commitments with certain drawdown	-	100%	-	100%	-
Housing loan commitments with certain drawdown	19	100%	19	50%	10
Transaction related contingent items	309	50%	155	100%	155
Short term, self liquidating trade related contingent liabilities	228	20%	46	100%	46
Other commitments to provide financial services which have an original maturity of one year or more	3,859	50%	1,930	100%	1,930
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,485	0%	-	0%	-
Total commitments	10,900		2,150		2,141
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	24,434		652	25%	160
Options	-		-	0%	-
Swaps	17,124		1,196	24%	286
Interest rate contracts:					
Forwards	10,382		4	25%	1
Futures	4,415		-	0%	-
Options	1,026		4	50%	2
Swaps	58,617		814	27%	216
Total market related contracts (derivatives)	115,998		2,670		665
Total off-balance sheet exposures	127,036		4,958		2,944
Total risk weighted exposures					29,594

Notes to the Financial Statements continued

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 31 CONCENTRATION OF CREDIT EXPOSURES				
ON-BALANCE SHEET CREDIT EXPOSURES CONSIST OF:				
Cash	103	112	103	112
Due from other financial institutions	1,006	841	1,003	841
Trading securities	1,329	1,459	1,329	1,459
Loans	33,361	31,449	28,050	25,390
Due from related entities	980	661	5,040	5,039
Other assets	1,956	2,117	1,715	1,949
Total on-balance sheet credit exposures	38,735	36,639	37,240	34,790
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY GEOGRAPHICAL AREAS:				
Within New Zealand	33,013	30,594	36,910	34,683
Overseas	5,722	6,045	330	107
Total on-balance sheet credit exposures	38,735	36,639	37,240	34,790
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	1,842	1,796	1,842	1,790
Agriculture, forestry and fishing	2,316	2,234	2,316	2,234
Commercial and financial	15,113	15,495	10,269	10,092
Real estate - construction	297	239	285	227
Real estate - mortgage	15,914	14,181	15,430	13,549
Instalment loans and other personal lending	2,431	1,991	2,299	1,858
Subtotal	37,913	35,936	32,441	29,750
General provision	(258)	(71)	(250)	(63)
Due from related entities	980	661	5,040	5,039
Other assets	100	113	9	64
Total on-balance sheet credit exposures	38,735	36,639	37,240	34,790
OFF-BALANCE SHEET CREDIT EXPOSURES BY CREDIT EQUIVALENT CONSIST OF:				
Contingent liabilities and commitments	3,092	2,358	3,089	2,288
Derivatives	2,966	2,654	2,978	2,670
Total off-balance sheet credit exposures by credit equivalent	6,058	5,012	6,067	4,958
ANALYSIS OF OFF-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	117	91	117	91
Agriculture, forestry and fishing	120	94	120	94
Commercial and financial	4,334	3,419	4,343	3,365
Real estate - construction	65	62	65	62
Real estate - mortgage	1,416	1,331	1,416	1,331
Instalment loans and other personal lending	6	15	6	15
Total off-balance sheet credit exposures by credit equivalent	6,058	5,012	6,067	4,958

Credit exposure is determined with reference to actual credit exposures.

Notes to the Financial Statements continued

NOTE 31 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 2003	As at 30 September 2003	As at 30 September 2002	As at 30 September 2002
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 2003	As at 30 September 2003	As at 30 September 2002	As at 30 September 2002
10 - 20% of Overseas Banking Group's Equity				
Bank counterparties	1	1	2	2
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 2003. The equity used in the comparatives is as at 30 September 2002. 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 related 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 32 RANKING OF LOCAL CREDITORS IN A WINDING-UP

The Banking Act in Australia gives priority over Australian assets of the Overseas Bank to Australian depositors. Accordingly, New Zealand depositors will rank after Australian depositors of the Overseas Bank in relation to claims against Australian assets.

However, the Westpac Banking Corporation Act 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 made 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 2003 amounted to \$22,733 million (2002: \$22,290 million).

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

Notes to the Financial Statements continued

NOTE 32 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 or 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.

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
NOTE 33 CONCENTRATION OF FUNDING				
FUNDING CONSISTS OF:				
Due to other financial institutions	201	445	201	445
Due to related entities	449	528	10,657	9,954
Deposits	22,542	22,143	22,537	22,132
Bonds, notes and commercial paper	8,249	7,844	197	159
Total funding	31,441	30,960	33,592	32,690
ANALYSIS OF FUNDING BY PRODUCT:				
Saving accounts	1,323	1,310	1,323	1,310
Certificates of deposits	2,790	3,370	2,790	3,370
Demand deposits	6,370	5,513	6,370	5,513
Secured borrowings	-	1	-	-
Other deposits and borrowings	20,308	19,794	12,251	12,097
Subtotal	30,791	29,988	22,734	22,290
Due to other financial institutions	201	445	201	445
Due to related entities	449	527	10,657	9,955
Total funding	31,441	30,960	33,592	32,690
ANALYSIS OF FUNDING BY GEOGRAPHICAL AREAS:				
Within New Zealand	22,349	22,045	32,553	31,478
Overseas	9,092	8,915	1,039	1,212
Total funding	31,441	30,960	33,592	32,690
ANALYSIS OF FUNDING BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	1,033	1,207	1,033	1,207
Agriculture, forestry and fishing	512	841	512	841
Commercial and financial	16,252	16,684	8,196	8,988
Households	13,195	11,700	13,194	11,699
Subtotal	30,992	30,432	22,935	22,735
Due to related entities	449	528	10,657	9,955
Total funding	31,441	30,960	33,592	32,690

Notes to the Financial Statements continued

NOTE 34 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

CERTAIN SHORT TERM FINANCIAL INSTRUMENTS

For cash and short term liquid assets, amounts due from other banks with maturities of less than three months, and other types of short term financial instruments recognised in the 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 the significant 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 (WNZI) and the NZ Bank in which WNZI will receive payments based on the dividend paid on Westpac Ordinary Shares. The purpose of this swap is to enable WNZI 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 1.

SUBORDINATED CAPITAL BONDS

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

Notes to the Financial Statements continued

NOTE 34 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	NZ Banking Group			
	2003	2003	2002	2002
	Carrying Amount \$m	Estimated Fair Value \$m	Carrying Amount \$m	Estimated Fair Value \$m
FINANCIAL ASSETS				
Cash	103	103	112	112
Due from other financial institutions	1,006	1,006	841	841
Trading securities	1,329	1,329	1,459	1,459
Loans	33,361	33,327	31,449	31,451
Due from related entities	980	980	661	661
Other assets	1,956	1,933	2,116	1,824
Total financial assets	38,735	38,678	36,638	36,348
Non-financial assets	957		820	
Total assets	39,692		37,458	
FINANCIAL LIABILITIES				
Due to other financial institutions	201	201	445	445
Deposits	22,542	22,571	22,143	22,151
Bonds, notes and commercial paper	8,249	8,310	7,844	7,846
Due to related entities	449	449	528	528
Other liabilities	3,153	3,153	2,105	2,105
Subordinated bonds	50	51	50	51
Total financial liabilities	34,644	34,735	33,115	33,126
Non-financial liabilities	23		33	
Total liabilities	34,667		33,148	

Notes to the Financial Statements continued

NOTE 34 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	NZ Bank			
	2003 Carrying Amount \$m	2003 Estimated Fair Value \$m	2002 Carrying Amount \$m	2002 Estimated Fair Value \$m
FINANCIAL ASSETS				
Cash	103	103	112	112
Due from other financial institutions	1,003	1,003	841	841
Trading securities	1,329	1,329	1,459	1,459
Loans	28,050	28,016	25,390	25,392
Due from related entities	5,040	5,040	5,039	5,039
Other assets	1,715	1,688	1,949	1,726
Total financial assets	37,240	37,179	34,790	34,569
Non-financial assets	2,527		2,467	
Total assets	39,767		37,257	
FINANCIAL LIABILITIES				
Due to other financial institutions	201	201	445	445
Deposits	22,537	22,566	22,132	22,140
Bonds, notes and commercial paper	197	199	159	159
Due to related entities	10,657	10,657	9,954	9,955
Other liabilities	3,049	3,049	2,140	2,141
Subordinated bonds	50	51	50	51
Total financial liabilities	36,691	36,723	34,880	34,891
Non-financial liabilities	14		18	
Total liabilities	36,705		34,898	

Notes to the Financial Statements continued

NOTE 35 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 are as follows:

NZ Banking Group 2003							
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
FINANCIAL ASSETS							
Cash	-	103	103	-	-	-	-
Due from other financial institutions	4.7	1,006	1,006	-	-	-	-
Trading securities	5.2	1,329	808	320	63	35	103
Loans	7.5	33,361	18,558	5,354	3,457	5,987	5
Due from related entities	0.3	980	980	-	-	-	-
Other assets	-	1,956	1,956	-	-	-	-
Total financial assets		38,735	23,411	5,674	3,520	6,022	108
Non-financial assets		957					
Total assets		39,692					
FINANCIAL LIABILITIES							
Due to other financial institutions	1.2	201	201	-	-	-	-
Deposits	4.0	22,542	16,924	3,007	1,513	1,090	8
Bonds, notes and commercial paper	1.9	8,249	5,190	216	1,443	1,400	-
Due to related entities	0.2	449	449	-	-	-	-
Other liabilities	-	3,153	3,153	-	-	-	-
Subordinated bonds	7.5	50	-	50	-	-	-
Total financial liabilities		34,644	25,917	3,273	2,956	2,490	8
Non-financial liabilities		23					
Total liabilities		34,667					
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Net interest rate contracts (principal):							
Receivable/(payable)		-	10,184	(3,867)	(1,883)	(5,178)	744

Notes to the Financial Statements continued

NOTE 35 INTEREST RATE RISK continued

NZ Banking Group							
2002							
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
FINANCIAL ASSETS							
Cash	-	112	112	-	-	-	-
Due from other financial institutions	5.3	841	841	-	-	-	-
Trading securities	5.6	1,459	801	235	3	281	139
Loans	8.0	31,449	18,286	3,299	3,844	6,010	10
Due from related entities	0.1	661	661	-	-	-	-
Other assets	-	2,116	2,108	2	4	2	-
Total financial assets		36,638	22,809	3,536	3,851	6,293	149
Non-financial assets		820					
Total assets		37,458					
FINANCIAL LIABILITIES							
Due to other financial institutions	3.3	445	445	-	-	-	-
Deposits	4.4	22,143	19,728	1,542	817	56	-
Bonds, notes and commercial paper	2.1	7,844	7,124	271	350	99	-
Due to related entities	0.3	528	528	-	-	-	-
Other liabilities	-	2,105	2,105	-	-	-	-
Subordinated bonds	7.6	50	-	-	50	-	-
Total financial liabilities		33,115	29,930	1,813	1,217	155	-
Non-financial liabilities		33					
Total liabilities		33,148					
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Net interest rate contracts (principal):							
Receivable/(payable)		-	5,094	(426)	(1,265)	(4,222)	819

Notes to the Financial Statements continued

NOTE 35 INTEREST RATE RISK continued

	NZ Bank 2003						
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
FINANCIAL ASSETS							
Cash	-	103	103	-	-	-	-
Due from other financial institutions	4.7	1,003	1,003	-	-	-	-
Trading securities	5.2	1,329	808	320	63	35	103
Loans	7.5	28,050	17,194	4,935	3,429	2,487	5
Due from related entities	6.1	5,040	508	-	-	4,532	-
Other assets	-	1,715	1,715	-	-	-	-
Total financial assets		37,240	21,331	5,255	3,492	7,054	108
Non-financial assets		2,527					
Total assets		39,767					
FINANCIAL LIABILITIES							
Due to other financial institutions	1.2	201	201	-	-	-	-
Deposits	4.0	22,537	16,918	3,007	1,513	1,091	8
Bonds, notes and commercial paper	6.1	197	-	-	97	100	-
Due to related entities	2.1	10,657	10,259	211	187	-	-
Other liabilities	-	3,049	3,049	-	-	-	-
Subordinated bonds	7.5	50	-	50	-	-	-
Total financial liabilities		36,691	30,427	3,268	1,797	1,191	8
Non-financial liabilities		14					
Total liabilities		36,705					
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Net interest rate contracts (principal):							
Receivable/(payable)	-	10,607	(3,678)	(1,883)	(5,179)	133	

Notes to the Financial Statements continued

NOTE 35 INTEREST RATE RISK continued

	NZ Bank 2002						
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
FINANCIAL ASSETS							
Cash	-	112	112	-	-	-	-
Due from other financial institutions	5.3	841	841	-	-	-	-
Trading securities	5.6	1,459	801	235	3	281	139
Loans	7.9	25,390	17,213	3,187	3,667	1,315	8
Due from related entities	6.5	5,039	507	532	-	4,000	-
Other assets	-	1,949	1,949	-	-	-	-
Total financial assets		34,790	21,423	3,954	3,670	5,596	147
Non-financial assets		2,467					
Total assets		37,257					
FINANCIAL LIABILITIES							
Due to other financial institutions	3.3	445	445	-	-	-	-
Deposits	4.4	22,132	19,718	1,541	873	-	-
Bonds, notes and commercial paper	5.9	159	-	60	-	99	-
Due to related entities	2.5	9,954	9,393	211	350	-	-
Other liabilities	-	2,140	2,140	-	-	-	-
Subordinated bonds	7.6	50	-	-	50	-	-
Total financial liabilities		34,880	31,696	1,812	1,273	99	-
Non-financial liabilities		18					
Total liabilities		34,898					
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS							
Net interest rate contracts (principal):							
Receivable/(payable)		-	5,329	(426)	(888)	(4,222)	207

Notes to the Financial Statements continued

NOTE 36 FOREIGN CURRENCY RISK

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

NET OPEN POSITION

	NZ Banking Group		NZ Bank	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Receivable/(payable)				
Australian Dollar	3	(1)	3	(1)
Euro	-	1	-	1
Great Britain Pound	1	-	1	-
Japanese Yen	(2)	-	(2)	-
United States Dollar	(10)	(4)	(10)	(4)
Other	2	1	2	1

NOTE 37 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		
	2003 %	2002 %	Minimum Capital Adequacy Ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	7.2	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	10.5	9.6	8.0

	Overseas Bank		
	2003 %	2002 %	Minimum Capital Adequacy Ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	6.5	5.6	4.0
Capital, expressed as a percentage of risk weighted exposures	10.5	9.2	8.0

The Overseas Bank and Overseas Banking Group exceeded the minimum capital adequacy ratio requirements as specified by APRA as at 30 September 2003. The minimum capital adequacy ratio requirements as specified by APRA are at least equal to those specified under the Basel framework.

Notes to the Financial Statements continued

NOTE 38 SECURITISATION, FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES

SECURITISATION

As at 30 September 2003 the NZ Banking Group had securitised assets amounting to \$846 million (2002: \$955 million) via the Westpac Securitisation Trust program ("WST program") and various private placements including the Home Loan Trust program ("HLT program").

The NZ Banking Group receives fees for various services provided to the WST program and HLT program 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 program.

The securities issued by the WST program and the units issued by the HLT program 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 program or HLT program except to the limited extent provided in the transaction documents for those programs 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 program's clean up features where any repurchase is conducted at market terms and conditions to a maximum of 10% of the securitised program's initial value.

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

FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES

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

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

	2003 \$m	2002 \$m
Corporate	91	87
Private and priority	112	174
Retirement plans	997	403
Superannuation funds	404	64
Unit trusts	1,518	1,030
Total funds under management and administration	3,122	1,758

INVOLVEMENT WITH THE NZ BANKING GROUP

The NZ Bank has disclosed under note 29 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 their 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 39 SEGMENT INFORMATION

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

NOTE 40 EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date of 30 September 2003, the NZ Bank repatriated \$350 million of retained profits to the Overseas Bank.



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AUDITORS' REPORT

TO THE DIRECTORS OF WESTPAC BANKING CORPORATION

We have audited the financial statements on pages 10 to 56 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 2003. This information is stated in accordance with the accounting policies set out on pages 15 to 19.

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 2003, 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 2003 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 56:
 - (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 2003 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 30 October 2003 and our unqualified opinion is expressed as at that date.

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

Chartered Accountants

Auckland



Westpac is the New Zealand division of Westpac Banking Corporation, which is incorporated in New South Wales, Australia
ABN 33 007 457 141