Westpac Banking Corporation's general disclosure statement

for the year ended 30 September 2005

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General information and definitions

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

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

- Westpac Banking Corporation Group (otherwise referred to as the "**Overseas Banking Group**") – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

- Westpac Banking Corporation (otherwise referred to as the "**Overseas Bank**") – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.

- Westpac Banking Corporation New Zealand Division (otherwise referred to as the "**NZ Banking Group**") – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business. The NZ Banking Group includes the following subsidiary entities:

  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited and its subsidiary company - Holding company
  - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
  - TBNZ Limited and its subsidiary companies - Holding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - The Warehouse Financial Services Limited - Financial services company
  - Westpac Capital - NZ - Limited and its subsidiary companies - Holding company
  - Westpac Finance Limited - Finance company
  - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - WestpacTrust Securities NZ Limited - Funding company
  - BLE Capital (NZ) Limited - Finance company
  - Hastings Forestry Investments Limited - Non-trading company
  - Tasman Funding No. 1 Limited - Non-trading company
  - Tasman Funding No. 2 Limited - Non-trading company

- 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).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2005.

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:

Name: Leonard Andrew Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of each of Huysmans Pty Limited and Trouin Pty Limited; President of the Walter and Eliza Hall Institute of Medical Research; and Member of each of Temasek International Panel and the South Australian Mineral & Petroleum Group.

Name: David Raymond Morgan, BEc, MSc, PhD
Non-Executive: No
Country of Residence: Australia
Primary Occupation: Chief Executive Officer
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: No

External Directorships: Chairman of the Australian Bankers' Association.

Name: Gordon McKellar Cairns, MA (Hons.)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of each of Seven Network Limited and Opera Australia; and Member of the Asia Pacific Advisory Board of CVC Capital Partners and Cailburn Partnership.

Name: David Alexander Crawford, BCom, LLB, FCA, FCPA
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

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

Name: Edward Alfred Evans, AC, BEcon, DUni (Grif)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of IBT Education Limited.

Name: Carolyn Judith Hewson, BEc (Hons.), MA (Econ.)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: Yes
External Directorships: Director of the Australian Gaslight Company; Board and advisory roles with the Royal Humane Society, YWCA NSW, the Australian Charities Fund and The Neurosurgical Research Foundation.

Name: Helen Ann Lynch, AM
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Director of each of Pacific Brands Limited and the Institute of Molecular Bioscience.

Name: Peter David Wilson, CA
Non-Executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Chairman of each of Port of Napier Limited, Evergreen Forests Limited and Global Equities Market Securities Limited; Director of each of The Colonial Motor Company Limited and Hill Country Corporation Limited; and Member of the New Zealand Exchange Limited Discipline Body.

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

NEW ZEALAND CHIEF EXECUTIVE OFFICER/RESPONSIBLE PERSON

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

Name: Ann Sherry, AO, BA, GradDipIR, MAICD, FAIBF, FIPAA
Chief Executive Officer, Westpac New Zealand
Country of Residence: New Zealand
Primary Occupation: Chief Executive Officer
Secondary Occupations: None
External Directorships: Director of each of Indigenous Enterprise Partnerships, Visa International Asia Pacific and Salvation Communications Proprietary Limited and Trustee of Sir Peter Blake Trust.

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

CONFLICTS OF INTEREST POLICY

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

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

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

INTERESTED TRANSACTIONS

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

(a) other than on the NZ Bank's or the NZ Banking Group's normal terms and conditions in the ordinary course of business; or

(b) which could be reasonably likely to influence materially the exercise of the Directors', or the New Zealand Chief Executive Officer's, duties.

SOLICITORS

Simpson Grierson
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

AUDITORS

Overseas Banking Group

PricewaterhouseCoopers
201 Sussex Street
Sydney, NSW 1171
Australia

New Zealand Banking Group

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

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:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	**AA**	**Aa**	**AA**
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC 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, will be provided 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. They are also available, free of charge, within five working days of any request made at any branch, agency, or any other staffed premises primarily engaged in the business of the NZ Bank to which its customers have access in order to conduct banking business.

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group can also be accessed at the internet address www.westpac.com.au.

Historical summary of financial statements

		NZ Banking Group				
	Note	**2005 $m**	2004 $m	2003 $m	2002 $m	2001 $m
STATEMENT OF FINANCIAL PERFORMANCE						
Interest income		**2,986**	2,596	2,368	2,075	2,326
Interest expense		**(1,892)**	(1,499)	(1,335)	(1,160)	(1,501)
Net interest income		**1,094**	1,097	1,033	915	825
Non-interest income	*(i)*	**593**	591	538	596	469
Operating income		**1,687**	1,688	1,571	1,511	1,294
Non-interest expenses		**(726)**	(731)	(699)	(685)	(639)
Operating profit before bad and doubtful debts expense		**961**	957	872	826	655
Bad and doubtful debts expense	*(ii)*	**(44)**	(39)	(205)	(40)	(45)
Operating profit before income tax expense		**917**	918	667	786	610
Income tax expense		**(292)**	(297)	(203)	(168)	(131)
Operating profit after income tax expense		**625**	621	464	618	479
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		**(14)**	(4)	(2)	(4)	(14)
Operating profit after income tax expense attributable to NZ Banking Group equity holders		**611**	617	462	614	465
Dividends paid or provided for on ordinary share capital		**-**	-	(180)	(150)	(105)
Dividends paid or provided for on subordinated capital instruments (net of tax)		**-**	-	(27)	(41)	(71)
Dividends paid or provided for on convertible debentures (net of tax)		**(107)**	(138)	(64)	(33)	(33)
Dividends paid or provided for on NZ Class Shares		**(54)**	(50)	(44)	(44)	(19)
Remittance to the Overseas Bank		**(333)**	(350)	-	(200)	(67)
Operating profit retained		**117**	79	147	146	170
STATEMENT OF FINANCIAL POSITION						
Total assets		**45,050**	42,491	39,945	37,458	38,178
Total impaired assets		**80**	58	71	92	146
Total liabilities		**41,072**	38,064	34,920	33,148	34,330
Equity	*(iii)*	**3,978**	4,427	5,025	4,310	3,848

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

(i) The NZ Banking Group's non-interest income for the year ended 30 September 2002 included a gain on sale of the assets and liabilities of Australian Guarantee Corporation (N.Z.) Limited (now known as Augusta 1962 Limited). The total gain on sale was $105 million, net of transactional and disposal costs.

(ii) During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect of the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of $178 million relating to its credit exposures.

(iii) During the year ended 30 September 2005: (a) the NZ Banking Group redeemed all of the NZ Class Shares on issue for $618 million; (b) the NZ Banking Group disposed of several subsidiaries which reduced the NZ Banking Group's outside minority interest by $659 million; and (c) the NZ Bank received $698 million of Branch Capital from the Overseas Banking Group.

During the year ended 30 September 2004, the NZ Bank redeemed $586 million of convertible debentures (net of issue costs and related tax) issued to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust I.

During the year ended 30 September 2003: (a) the NZ Bank issued $1,994 million of convertible debentures (net of issue costs), $715 million of which were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and $1,279 million to JPMorgan Chase Bank as trustee of Tavarua Funding Trust III; (b) the NZ Bank redeemed $600 million of branch capital; and (c) the NZ Bank redeemed $900 million of subordinated capital instruments issued to Westpac Overseas Funding Pty Limited.

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

Market risk

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

The peak end-of-day exposures and as at exposures below have been calculated using the Overseas Banking Group's equity as at 30 September 2005 (30 September 2004 for comparatives).

	As at 30 September 2005 $m	**Peak end-of-day for the three months ended 30 September 2005 $m**	As at 30 September 2004 $m	Peak end-of-day for the three months ended 30 September 2004 $m
Aggregate interest rate exposure	**179**	**253**	121	202
As a percentage of the Overseas Banking Group's equity	**0.95%**	**1.22%**	0.70%	1.16%
Aggregate foreign currency exposure	**3**	**5**	3	3
As a percentage of the Overseas Banking Group's equity	**0.02%**	**0.03%**	0.02%	0.02%

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

Guarantee arrangements

No material obligations of the Overseas Bank are guaranteed.

Ranking of local creditors in a winding-up

There are material legislative restrictions in the Overseas Bank's country of incorporation which subordinate the claims of a class of unsecured creditors of the Registered Bank on the assets of the Overseas Bank to those of another class of unsecured creditors of the Overseas Bank, in a winding-up of the Overseas Bank.

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

However, the Westpac Banking Corporation Act 1982 (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 legislation described below 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.

The Overseas Bank is an authorised deposit-taking institution ("ADI") for the purposes of the Banking Act 1959 (Australia). Section 13A(3) of that Act states:

> "If an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet that ADI's deposit liabilities in Australia in priority to all other liabilities of the ADI."

Section 13A(3) of the Banking Act 1959 (Australia) affects all of the unsecured deposit liabilities of the NZ Bank which as at 30 September 2005 amounted to $27,664 million (30 September 2004: $25,520 million).

Section 13A(4) of the Banking Act 1959 (Australia) states that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless the Australian Prudential Regulation Authority has authorised the ADI to hold assets of a lesser value. The Overseas Bank has at all times during the year held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

The requirements of these sections have the potential to impact on the management of the liquidity of the NZ Banking Group.

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

"Deposit liabilities –

(1) Except as otherwise authorised by the Reserve Bank of New Zealand, the Continuing Bank shall at all times hold in New Zealand assets (other than goodwill) of not less than the value of the total of the Continuing Bank's deposit liabilities in New Zealand.

(2) In the event of the Continuing Bank becoming unable to meet its obligations or suspending payment, the assets of the Continuing Bank in New Zealand shall be available to meet the Continuing Bank's deposit liabilities in New Zealand in priority to all other liabilities of the Continuing Bank.

(3) Every person who acts in contravention of or fails to comply with subsection (1) of this section commits an offence and is liable on conviction on indictment to a fine not exceeding $25,000 and, if the offence is a continuing one, to a further fine not exceeding $2,000 for every day on which the offence has continued.

(4) Nothing in this section limits the provisions of the Reserve Bank of New Zealand Act 1989."

During the year ended 30 September 2005, 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.

Pending proceedings or arbitration

There are two legal proceedings pending at the date of this General Disclosure Statement that may have a material adverse effect on the NZ Banking Group or the NZ Bank. The New Zealand Commerce Commission has filed proceedings against the NZ Bank under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. In addition, proceedings have been filed by the NZ Bank against the New Zealand Inland Revenue Department ("NZIRD") in which the NZ Bank is disputing the tax assessments received on 30 September 2004 and 31 March 2005 from the NZIRD in relation to its investigation of certain structured finance transactions. Descriptions of the Commerce Commission proceedings, the NZIRD investigation and various contingent liabilities of the NZ Banking Group and the NZ Bank are set out in note 25 to the consolidated financial statements included in this General Disclosure Statement.

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

Local incorporation

The Reserve Bank of New Zealand's ("Reserve Bank") policy is that all systemically important banks must incorporate as a local entity rather than operate via a branch. In December 2004, the Board of the Overseas Bank announced that the key operations in New Zealand would be locally incorporated. The Overseas Bank received agreement in principle from the Reserve Bank on its proposed incorporation model on 27 October 2005 and is about to commence the consultation process for the legislation required to implement local incorporation.

Conditions of registration

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

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

2. That the NZ Banking Group's insurance business is not greater than one percent of its total consolidated assets. For the purposes of this condition:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

   (ii) In measuring the size of 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 parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

3. That the business of the NZ Bank does not constitute a predominant proportion of the business of the Overseas Bank.

4. That no appointment to the position of the New Zealand Chief Executive Officer of the NZ Bank shall be made unless:

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

   (ii) the Reserve Bank has advised that it has no objection to that appointment.

5. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That the Overseas Bank complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:

   – Tier One Capital of the Overseas Bank is not less than four percent of risk weighted exposures;

   – Capital of the Overseas Bank is not less than eight percent of risk weighted exposures.

(Further information on the capital adequacy of the Overseas Bank is contained in note 32 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.

Directors' statement

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

(a) the Disclosure Statement contains all information that is required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand); and

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

Each Director of the Overseas Bank believes and the Chief Executive Officer, Westpac New Zealand believes, after due enquiry, that, over the year ended 30 September 2005:

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

(b) 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.

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

Ann Sherry

Dated this the 2nd day of November 2005.

Consolidated financial report

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Statements of financial performance

For the year ended 30 September 2005

		NZ Banking Group		NZ Bank	
	Note	**2005 $m**	2004 $m	**2005 $m**	2004 $m
Interest income	*3*	**2,986**	2,596	**2,964**	2,515
Interest expense	*3*	**(1,892)**	(1,499)	**(2,135)**	(1,666)
Net interest income		**1,094**	1,097	**829**	849
Non-interest income	*4*	**593**	591	**538**	512
Operating income		**1,687**	1,688	**1,367**	1,361
Non-interest expenses	*5*	**(726)**	(731)	**(782)**	(761)
Operating profit before bad and doubtful debts expense		**961**	957	**585**	600
Bad and doubtful debts expense	*6*	**(44)**	(39)	**(44)**	(39)
Operating profit before income tax expense		**917**	918	**541**	561
Income tax expense	*7*	**(292)**	(297)	**(129)**	(106)
Operating profit after income tax expense		**625**	621	**412**	455
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		**(14)**	(4)	**-**	-
Operating profit after income tax expense attributable to NZ Banking Group equity holders		**611**	617	**412**	455

The following notes (numbered 1 to 35) form part of and should be read in conjunction with these financial statements.

Statements of movements in equity

For the year ended 30 September 2005

		NZ Banking Group		NZ Bank	
	Note	**2005 $m**	2004 $m	**2005 $m**	2004 $m
Balance at beginning of year		**4,427**	5,025	**2,424**	3,062
Operating profit after income tax expense attributable to NZ Banking Group equity holders		**611**	617	**412**	455
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		**14**	4	**-**	-
Total recognised revenue and expenses		**625**	621	**412**	455
Ordinary share capital:					
Issue of ordinary share capital		**-**	50	**-**	-
Branch capital received		**698**	-	**698**	-
Convertible debentures:	*23*				
Dividends paid or provided for on convertible debentures (net of tax)		**(107)**	(138)	**(107)**	(138)
Redemption of convertible debentures[1]		**-**	(605)	**-**	(605)
NZ Class Shares:	*24*				
Dividends paid on NZ Class Shares		**(54)**	(50)	**-**	-
Purchase of NZ Class Shares – Treasury Stock		**(1)**	(19)	**-**	-
Redemption of NZ Class Shares[2]		**(618)**	-	**-**	-
Other minority interests		**(659)**	(107)	**-**	-
Remittance to the Overseas Bank		**(333)**	(350)	**(333)**	(350)
Balance at year end		**3,978**	4,427	**3,094**	2,424

The following notes (numbered 1 to 35) form part of and should be read in conjunction with these financial statements.

1. This represents the proceeds from the convertible debentures which had previously been recognised net of issue costs and related tax of $19 million.
2. This represents the consideration for the redemption of the NZ Class Shares which had previously been recognised net of issue costs and discount on the second instalment of $40 million.

Statements of financial position

As at 30 September 2005

		NZ Banking Group		NZ Bank	
	Note	**2005 $m**	2004 $m	**2005 $m**	2004 $m
ASSETS					
Cash		**96**	101	**96**	101
Due from other financial institutions	*9*	**316**	354	**315**	353
Trading securities	*10*	**3,558**	2,653	**3,558**	2,653
Loans	*11,12*	**37,094**	36,049	**36,795**	31,448
Investment in related entities	*14*	**-**	-	**1,777**	1,777
Due from related entities	*14*	**993**	750	**1,944**	4,932
Property, plant and equipment	*15*	**213**	212	**136**	129
Intangible assets	*16*	**517**	564	**437**	477
Other assets	*17*	**2,263**	1,808	**2,137**	1,543
Total assets		**45,050**	42,491	**47,195**	43,413
Less:					
LIABILITIES					
Due to other financial institutions	*18*	**1,745**	1,071	**1,745**	1,071
Deposits	*19*	**27,564**	25,325	**27,564**	25,320
Bonds, notes and commercial paper	*20*	**8,308**	7,772	**100**	200
Other liabilities	*21*	**2,095**	2,589	**2,013**	2,416
Total liabilities excluding subordinated debt and due to related entities		**39,712**	36,757	**31,422**	29,007
Subordinated debt	*22*	**758**	785	**758**	785
Total liabilities excluding due to related entities		**40,470**	37,542	**32,180**	29,792
Due to related entities	*14*	**602**	522	**11,921**	11,197
Total liabilities		**41,072**	38,064	**44,101**	40,989
Net assets		**3,978**	4,427	**3,094**	2,424
Represented by:					
EQUITY					
Ordinary share capital		**132**	132	**-**	-
Branch capital		**698**	-	**698**	-
Convertible debentures	*23*	**1,994**	1,994	**1,994**	1,994
Retained earnings		**1,142**	1,065	**402**	430
Total NZ Banking Group equity		**3,966**	3,191	**3,094**	2,424
NZ Class Shares	*24*	**-**	579	**-**	-
Other minority interests		**12**	657	**-**	-
Total equity		**3,978**	4,427	**3,094**	2,424

The following notes (numbered 1 to 35) form part of and should be read in conjunction with these financial statements.

Statements of cash flows

For the year ended 30 September 2005

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest income received	**3,009**	2,579	**2,964**	2,527
Non-interest income received	**517**	516	**460**	438
Increase in trading securities and derivative financial instruments	**(1,694)**	(574)	**(1,695)**	(598)
Interest paid	**(1,852)**	(1,456)	**(2,111)**	(1,668)
Non-interest expenses paid	**(613)**	(645)	**(695)**	(699)
Income tax paid	**(218)**	(261)	**(71)**	(63)
Net cash flows from operating activities	**(851)**	159	**(1,148)**	(63)
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of property, plant and equipment	**6**	3	**4**	1
Purchase of property, plant and equipment	**(75)**	(58)	**(60)**	(45)
Decrease/(increase) in due from other financial institutions – term	**67**	(67)	**67**	(67)
Increase in loans	**(5,277)**	(2,878)	**(5,347)**	(3,481)
Disposal of related entities	**4,178**	427	**-**	-
Increase in other assets	**(139)**	(85)	**(110)**	(23)
Net cash flows from investing activities	**(1,240)**	(2,658)	**(5,446)**	(3,615)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in due to other financial institutions – term	**629**	832	**629**	832
Increase in deposits	**2,244**	2,783	**2,244**	2,783
Increase/(decrease) in bonds, notes and commercial paper	**536**	(477)	**(100)**	3
(Decrease)/increase in amounts due to and due from related entities	**(813)**	(16)	**3,645**	695
Decrease in other liabilities	**(59)**	(6)	**(51)**	(35)
Issue of ordinary share capital	**-**	50	**-**	-
Branch capital received	**698**	-	**698**	-
Issue of subordinated debt (net of issue costs)	**-**	781	**-**	781
Redemption of convertible debentures	**-**	(605)	**-**	(605)
Redemption of subordinated debt	**-**	(50)	**-**	(50)
Redemption of NZ Class Shares	**(618)**	-	**-**	-
Dividends paid on convertible debentures	**(159)**	(204)	**(159)**	(204)
Dividends paid on NZ Class Shares	**(54)**	(50)	**-**	-
Purchase of NZ Class Shares – Treasury Stock	**(1)**	(19)	**-**	-
Remittance to the Overseas Bank	**(333)**	(350)	**(333)**	(350)
Net cash flows from financing activities	**2,070**	2,669	**6,573**	3,850
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(21)**	170	**(21)**	172
Cash and cash equivalents at beginning of year	**208**	38	**207**	35
Cash and cash equivalents at year end	**187**	208	**186**	207
CASH AND CASH EQUIVALENTS COMPRISE:				
Cash	**96**	101	**96**	101
Due from other financial institutions – call	**316**	287	**315**	286
Due to other financial institutions – call	**(225)**	(180)	**(225)**	(180)
Cash and cash equivalents at year end	**187**	208	**186**	207

Statements of cash flows continued

For the year ended 30 September 2005

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $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	**611**	617	**412**	455
Adjustments:				
Amortisation of intangible assets	**47**	47	**40**	39
Bad and doubtful debts expense	**44**	39	**44**	39
Depreciation/amortisation	**68**	70	**49**	50
Intragroup minority interests in subsidiary companies	**14**	4	**-**	-
Movement in accrued assets	**15**	(64)	**(16)**	(28)
Movement in accrued liabilities	**46**	57	**38**	11
Movement in income tax provisions	**74**	37	**58**	43
Movement in trading securities and derivative financial instruments	**(1,770)**	(648)	**(1,773)**	(672)
Net cash flows from operating activities	**(851)**	159	**(1,148)**	(63)

The following notes (numbered 1 to 35) form part of and should be read in conjunction with these financial statements.

Notes to the financial statements

NOTE 01 STATEMENT OF ACCOUNTING POLICIES

GENERAL ACCOUNTING POLICIES

Statutory Base

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

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2005.

These financial statements were authorised for issue by the Board of Directors on 1 November 2005.

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 dollars 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, Hastings Forestry Investments Limited, and the consolidated capital and reserves of Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited and Westpac Financial Services Group - NZ - Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

Comparative Figures

Certain comparative figures have been restated so as to enhance comparability with the current year. A portion of the deposits balance had been incorrectly classified as interest bearing. The comparative figures have been restated by reclassifying interest bearing deposits of around $1 billion to non-interest bearing. The impact on operating profit was nil.

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

PARTICULAR ACCOUNTING POLICIES

Bad and Doubtful Debts

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

A general provision is maintained to cover expected losses inherent in the NZ Banking Group's existing overall loan portfolio that are not yet identifiable. In determining the level of general provision a statistical methodology called dynamic provisioning is employed. This methodology assists management in making estimates and judgements 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 Banking Group and the NZ Bank is available in note 12 to the financial statements.

Derivative Financial Instruments

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

Trading

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

Hedging

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

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

Fees

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

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

Notes to the financial statements

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Foreign Currency

Foreign currency assets and liabilities have been translated into New Zealand dollars at the mid-point rate of foreign exchange ruling as at balance date. Transactions denominated in a foreign currency are converted into 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.

Goods and Services Tax

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

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; and
- 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".

Assets, not classified as impaired assets or past due assets, in which the counterparty is (a) in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or (b) in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction are reported separately. These are known as "other assets under administration".

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 years is either written off as a bad debt or specific provisions are made as necessary.

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.

NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

Leasing

Finance leases are accounted for using the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance. Finance leases are included in the statement of financial position as "loans".

Investments in leveraged lease and equity lease partnerships are included in the statement of financial position as "loans". Income recognition is based on a method which yields a constant rate of return on the outstanding lease investment.

Life Insurance

Assets
Life insurance assets are recorded at market value. Gains and losses realised from the sale of life insurance assets and unrealised market value adjustments are included in the statement of financial performance.

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

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

Property, Plant and Equipment

Freehold land and buildings are carried at cost less accumulated depreciation. Write-downs to recoverable value are recognised as an expense in the statement of financial performance.

Depreciation of freehold buildings and freehold improvements is calculated on a straight-line basis at rates appropriate to their estimated useful lives, on average 40 years. The cost of improvements to leasehold premises is capitalised and amortised over the remaining term of the lease, but not exceeding seven years.

Furniture and fittings, motor vehicles and equipment are shown at cost less accumulated depreciation, which is calculated on a straight-line basis at rates appropriate to their estimated useful life, ranging from three to seven years.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Capitalised software is amortised over its expected life, which is usually three years. Costs incurred on computer software maintenance are expensed as incurred.

Redeemable Preference Share Finance

The provision of finance to customers by way of redeemable preference shares is included in the statement of financial position as "loans". Dividend income recognition is based on a method which yields a constant rate of return on the outstanding balance and is included in the statement of financial performance as "interest income".

Redemption of Convertible Debentures

Convertible debentures reported as equity in the statement of financial position are reclassified as liabilities when the NZ Bank gives notice that they are going to be redeemed. The amount recognised as a liability is the amount payable on redemption. Issue costs, previously treated as a reduction in the equity amount recognised, and related tax are deducted from retained earnings. Distributions relating to the year the convertible debentures are classified as a liability are recognised as an interest expense in the statement of financial performance.

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".

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Securitisation

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

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

Statement of Cash Flows

Basis of presentation

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

Cash and cash equivalents

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

Netting of cash flows

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

Superannuation Scheme

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

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

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

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

Taxation

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

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

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Trading Income

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

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

Trading Securities

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

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

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

Changes in Accounting Policies

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

Adoption of New Zealand Equivalent to International Financial Reporting Standards

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

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

(a) identified the differences between the NZ Banking Group's current accounting policies and NZ IFRS;

(b) formulated revised accounting policies and process changes to allow compliance; and

(c) implemented the required changes.

The implementation stage is virtually complete with the exception of Loan Provisioning which is detailed later in this note.

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

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

The primary impacts of the new standards for the NZ Banking Group (and the NZ Bank where figures are shown) are described on the following pages.

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Adoption of New Zealand Equivalent to International Financial Reporting Standards continued

Changes applicable in the comparative period (year ended 30 September 2005)

Taxation (NZ IAS 12 *Income Taxes*)
Under NZ IFRS a balance sheet approach will be adopted, replacing the statement of financial performance approach currently used. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. It is expected that this approach will not result in any material changes for the NZ Banking Group or the NZ Bank. Each of the changes detailed below have been shown after applying the impact of taxation.

Income recognition (NZ IAS 18 *Revenue*)
Initial impact on retained profit.
Increased deferral of fee income.

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

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Decrease in non-interest income	**-**	N/A	**-**	N/A
Increase in assets as at 30 September 2005 / 1 October 2004	**3**	-	**2**	-
Increase in liabilities as at 30 September 2005 / 1 October 2004	**9**	6	**8**	5
Decrease in equity as at 30 September 2005 / 1 October 2004	**(6)**	(6)	**(6)**	(5)

Goodwill (NZ IFRS 3 *Business Combinations*)
Initial impact on retained profit.
Lower expenses.
Volatility in earnings in the event of impairment.

From initial adoption goodwill acquired in business combinations no longer requires amortisation, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement if it occurs. The goodwill amortised during the year ended 30 September 2005 has been reversed against opening retained profits, and the carrying value of goodwill adjusted to an IFRS basis (in accordance with transition requirements) on transition to NZ IFRS.

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Decrease in non-interest expense	**(47)**	N/A	**(39)**	N/A
Increase/(decrease) in goodwill assets as at 30 September 2005 / 1 October 2004	**30**	(17)	**39**	-
Increase/(decrease) in equity as at 30 September 2005 / 1 October 2004	**30**	(17)	**39**	-

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Adoption of New Zealand Equivalent to International Financial Reporting Standards continued

Employee benefits (NZ IAS 19 *Employee Benefits*)
Initial impact on retained profit.

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

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Decrease in pension expense	**(2)**	N/A	**(2)**	N/A
Increase in assets as at 30 September 2005 / 1 October 2004	**10**	9	**10**	9
Increase in liabilities as at 30 September 2005 / 1 October 2004	**50**	51	**50**	51
Decrease in equity as at 30 September 2005 / 1 October 2004	**(40)**	(42)	**(40)**	(42)

Consolidation of special purpose vehicles (NZ IAS 27 *Consolidated and Separate Financial Statements*)
New assets/liabilities recognised.
Previously consolidated entities derecognised.

A difference in the interpretation of the consolidation and derecognition rules under NZ IFRS and existing accounting standards will result in:

(a) the NZ Banking Group consolidating a number of special purpose vehicles used for the securitisation of the NZ Banking Group's own and customer's assets. The consolidation of these entities will result in an increase in both assets and liabilities of the NZ Banking Group with no impact on net assets; and

(b) the NZ Banking Group derecognising a number of entities relating to various structured finance transactions. The derecognition of these entities will result in a decrease in both assets and liabilities of the NZ Banking Group with no impact on net assets.

There is not expected to be any material impact on net profit as a result of this change.

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Decrease in assets as at 30 September 2005 / 1 October 2004	**(5)**	(291)	-	-
(Decrease)/increase in liabilities as at 30 September 2005 / 1 October 2004	**(5)**	366	-	-
Decrease in equity (minority interests) as at 30 September 2005 / 1 October 2004	-	(657)	-	-

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Adoption of New Zealand Equivalent to International Financial Reporting Standards continued

Changes applicable from 1 October 2005

Hybrid instruments (NZ IAS 32 *Financial Instruments: Disclosure and Presentation*)
New liabilities recognised.
Higher interest expense.

The NZ Bank has issued convertible debentures to other entities, which are currently classified as equity. From 1 October 2005, the convertible debentures relating to Westpac Fixed Interest Resettable Trust Securities with a carrying value of $715 million, have been reclassified as debt and distributions on them of approximately $59 million per annum treated as interest expense.

	NZ Banking Group	NZ Bank
	$m	$m
Expected decrease in net profit	40	40
Decrease in assets as at 30 September 2005	(8)	(8)
Increase in liabilities as at 30 September 2005	715	715
Decrease in equity as at 30 September 2005	(723)	(723)

Effective yield (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)
Initial impact on retained profit.
Increased deferral of fee income.

From 1 October 2005, certain fees received and expenses incurred in the origination of loans will be deferred on the balance sheet and subsequently recognised as a yield adjustment to interest income. Although the annual impact on net profit is not expected to be material the classification of income will change.

	NZ Banking Group	NZ Bank
	$m	$m
Decrease in assets as at 30 September 2005	(50)	(50)
Decrease in liabilities as at 30 September 2005	(17)	(16)
Decrease in equity as at 30 September 2005	(33)	(34)

Hedge accounting (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)
Initial impact on retained profit.
Volatility in future earnings.
New assets/liabilities recognised.

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

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

The hedging rules impact the way hedges of net interest margin, assets and liabilities are accounted for. Trading activities, where all derivatives were previously carried at fair value, are not significantly impacted.

	NZ Banking Group	NZ Bank
	$m	$m
Increase in assets as at 30 September 2005	10	10
Increase in liabilities as at 30 September 2005	6	8
Increase in equity as at 30 September 2005	4	2

NOTE 01 **STATEMENT OF ACCOUNTING POLICIES continued**

Adoption of New Zealand Equivalent to International Financial Reporting Standards continued

Loan impairment (NZ IAS 39 *Financial Instruments: Recognition and Measurement*)
Initial impact on retained profit.
Volatility in future earnings.
Lower general provision.

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

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

Notes to the financial statements

NOTE 02 RISK MANAGEMENT

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

MANAGEMENT ASSURANCE PROGRAMME

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

This programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management to Risk Management. The results of this process are reported to the NZ Operational Risk & Compliance Committee, chaired by the Chief Executive Officer for New Zealand ("NZ CEO"), a member of the Group Executive of the Overseas Bank. The NZ CEO then provides management assurance to the Board Risk Management Committee ("BRMC"), the Board Audit Committee ("BAC") and the Chief Executive Officer of the Overseas Bank.

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

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

Core risk principles

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

The principles for managing risk are:

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

Risk management organisation

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

The Overseas Bank has a BAC and BRMC. The BAC and BRMC are the subcommittees of the Board that are responsible for monitoring risk management performance and controls across the Overseas Banking Group.

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

Operational Risk plays a key role in the NZ Banking Group's risk management framework. It is independent from the business units and reports to the General Manager Risk Management who is accountable for the risk framework compliance. Risk Management and Corporate Affairs are responsible for the coordination of the response to key regulatory developments and issues affecting risk management.

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

NOTE 02 RISK MANAGEMENT continued

CATEGORIES OF RISK

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

Specific banking risks

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

Credit risk

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

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

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

PORTFOLIO MANAGEMENT

The NZ Banking Group monitors its portfolio to guard against the development of risk concentrations. This process has ensured that the NZ Banking Group's credit risk remains very well diversified throughout the New Zealand economy. Along with country and industry risk concentration limits and monitoring, the NZ Banking Group establishes separate reporting and prudential limits for borrowings that can be accessed by a single customer group. These limits apply to both borrowing equivalents and settlement risk. Separate limits apply to corporates, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the BRMC along with a strategy addressing the ongoing management of the excess.

DYNAMIC PROVISIONING FOR CREDIT LOSS

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

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

FOREIGN EXCHANGE AND DERIVATIVE CREDIT RISK MANAGEMENT

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

NOTE 02 **RISK MANAGEMENT continued**

Market risk

Market risk is the potential for losses arising from adverse movements in the level and volatility of market risk factors such as foreign exchange rates, interest rates, commodity prices and equity prices:

- Foreign exchange rate risk results from exposure to changes in spot prices, forward prices and volatilities of currency rates.
- Interest rate risk primarily results from exposures to the change in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads.
- Commodity price risk results from exposures to changes in spot prices, forward prices and volatilities of commodities.
- Equity price risk results from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.

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

TRADING ACTIVITIES

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

DAILY VAR

VaR is the potential loss in value of Westpac's trading positions due to adverse market movements over a defined time horizon with a specified confidence interval. Westpac uses a one-day time horizon and a 99% confidence interval for its VaR model. This means that there is a 1 in 100 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once every hundred days. The historical simulation method is used to calculate VaR taking into account all material market risk factors. Actual profit and loss outcomes are back tested to VaR on a daily basis, which monitors the quality of the VaR model. VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. Therefore, the use of structural risk reporting and stress testing both act as compliments to further capture extreme events and local market risk exposures.

OTHER BANKING ACTIVITIES

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

Non-trading risk

MANAGEMENT OF STRUCTURAL INTEREST RATE RISK

The NZ Banking Group's Treasury Unit manages the sensitivity of the 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, the Institutional Bank's Treasury Oversight Committee and Group MARCO.

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

NOTE 02 **RISK MANAGEMENT continued**

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

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

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

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

STRUCTURAL FOREIGN EXCHANGE RISK

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

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.

Liquidity risk

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

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

Key aspects of the liquidity management strategy are as follows:

ANNUAL LIQUIDITY RISK FRAMEWORK REVIEW

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

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

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

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

Notes to the financial statements

NOTE 02 RISK MANAGEMENT continued

ANNUAL FUNDING PLAN

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

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

Group MARCO and GRRC review the Annual Funding Plan before it is submitted for approval by BRMC.

CONTINGENCY PLANNING

Treasury maintains a Crisis Management Action Plan detailing the broad actions that should be taken in the event of a funding crisis. This document:

- defines a committee of senior executives to manage a crisis;
- allocates responsibility to individuals for key tasks;
- includes a media relations strategy;
- provides a contingent funding plan; and
- contains detailed contact lists outlining key regulatory, government, ratings agencies, equity and debt investor contact points.

LIQUIDITY RISK CAPITAL

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

EXPENSE ALLOCATION

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

SOURCES OF LIQUIDITY

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

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

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

As at 30 September 2005, the NZ Banking Group held liquid assets of $3,404 million (30 September 2004: $2,627 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.

NOTE 02 RISK MANAGEMENT continued

Compliance risk

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

Regulatory responsibilities have increased significantly over the last year. In order to manage existing and new requirements in a more effective way the development of the ability to provide early detection monitoring of these responsibilities to the business has been accelerated. Compliance risk management enables the NZ Banking Group to identify emerging issues and where necessary put in place preventative measures. While compliance is primarily a line management responsibility, with each business area required to demonstrate an effective process, there are also several group-wide initiatives designed to ensure consistency. For example, Group Compliance approves policy approaches to be adopted for the Overseas Banking Group and receives progress implementation reports in respect of major new regulatory changes.

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

Operational risk

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

The NZ Banking Group has adopted the Overseas Bank's Operational Risk Framework that was approved by the BRMC on 2 May 2005. This Framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management, Operational Risk in Change, Reporting and Monitoring and Operational Risk Capital Allocation.

All business and support areas are responsible for the ongoing identification, measurement, monitoring and mitigation of operational risk. On a quarterly basis, as part of the Management Assurance Programme, each of the business and support areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from Operational Risk, Compliance and Group Audit. The results of this process are reported quarterly to the NZ Operational Risk and Compliance Committee (chaired by the NZ CEO) and the BRMC.

The internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports the results separately to the NZ CEO, the BAC and the BRMC.

Group audit

The NZ Banking Group has an independent internal audit unit ("Group Audit") which reports, through the Overseas Banking Group's internal Group Assurance unit, to the BAC. The BAC comprises six non-executive and independent Directors of the Overseas Bank. The Committee assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, the activities of the Overseas Banking Group's internal and external auditors, as well as monitoring the relationship between management and the external auditors.

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

Reviews in respect of risk management systems

During each financial year, Group Audit participates quarterly in the Management Assurance Programme in order to assess the adequacy of the governance framework supporting operational risk management. Group Audit annually reviews the adequacy and effectiveness of the market risk and liquidity systems controls.

The Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit decision-making relating to products provided in New Zealand. Group Audit reviews controls over the adequacy and effectiveness of the dynamic provisioning systems annually.

Parties internal to the Overseas Banking Group carry out the above reviews.

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2005 **$m**	2004 $m	**2005** **$m**	2004 $m
NOTE 03 INTEREST				
INTEREST INCOME				
Loans	**2,958**	2,577	**2,719**	2,186
Impaired assets	**3**	2	**3**	2
Related entities	**19**	9	**236**	319
Other	**6**	8	**6**	8
Total interest income	**2,986**	2,596	**2,964**	2,515
INTEREST EXPENSE				
Deposits and bills payable	**1,528**	1,286	**1,528**	1,285
Bonds, notes and commercial paper	**306**	175	**7**	12
Related entities	**1**	8	**543**	339
Subordinated debt	**39**	24	**39**	24
Other	**18**	6	**18**	6
Total interest expense	**1,892**	1,499	**2,135**	1,666

The NZ Banking Group had loans and deposits that were subject to set-off agreements as disclosed in note 11. For the year ended 30 September 2005, interest income of $233 million (30 September 2004: $422 million) and interest expense of $93 million (30 September 2004: $161 million) has been set-off. This resulted in net interest income of $140 million (30 September 2004: $261 million) which has been included in interest income from loans. There is no set-off amount in the NZ Bank.

	NZ Banking Group		NZ Bank	
	2005 **$m**	2004 $m	**2005** **$m**	2004 $m
NOTE 04 NON-INTEREST INCOME				
Lending fees (loan and risk)	**112**	103	**111**	103
Net transaction fees and commissions received	**267**	248	**260**	243
Other non-risk fee income	**60**	61	**59**	60
Wealth management income	**66**	71	**-**	-
General insurance commissions and premiums (net of claims)	**3**	3	**24**	19
Trading income:				
Foreign exchange trading	**49**	52	**49**	52
Other trading	**27**	26	**27**	25
Management fees received from related entities	**-**	-	**6**	8
Other	**9**	27	**2**	2
Total non-interest income	**593**	591	**538**	512

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 05 NON-INTEREST EXPENSES				
Amortisation of intangible assets	**47**	47	**40**	39
Auditors' remuneration[1]	**1**	1	**1**	1
Depreciation and amortisation:				
Leasehold improvements	**12**	12	**-**	-
Furniture and fittings	**8**	9	**1**	1
Computer equipment and software	**48**	49	**48**	49
Equipment expenses	**7**	8	**4**	4
Lease and rental expenses	**53**	53	**9**	8
Related entities:				
Subvention payments	**-**	-	**75**	62
Other related entities expenses	**13**	14	**93**	84
Salaries	**287**	275	**280**	267
Other staff expenses	**37**	36	**37**	35
Consultancy fees and other professional services	**112**	126	**102**	114
Communications, advertising and stationery	**65**	69	**62**	67
Other	**36**	32	**30**	30
Total non-interest expenses	**726**	731	**782**	761

1. Auditors remuneration above is comprised of the following:

	NZ Banking Group		NZ Bank	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Audit services	**834**	652	**810**	628
GST	**104**	81	**101**	79
Total audit services	**938**	733	**911**	707
Audit related and non-audit services	**271**	651	**205**	319
GST	**34**	81	**26**	40
Total audit related and non-audit services	**305**	732	**231**	359
Total auditors' remuneration (excluding GST)	**1,105**	1,303	**1,015**	947
GST	**138**	162	**127**	119
Total auditors' remuneration (including GST)	**1,243**	1,465	**1,142**	1,066

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 06 BAD AND DOUBTFUL DEBTS EXPENSE				
Specific provisions	**22**	17	**22**	17
Specific provisions no longer required	**(9)**	(10)	**(9)**	(10)
General provision	**12**	11	**15**	12
Write-offs direct	**35**	38	**30**	35
Recoveries	**(16)**	(17)	**(14)**	(15)
Total bad and doubtful debts expense	**44**	39	**44**	39

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 07 INCOME TAX				
INCOME TAX EXPENSE				
Operating profit before income tax expense	**917**	918	**541**	561
Prima facie income tax expense at 33 percent	**303**	303	**179**	185
(Deduct)/add income tax effect of:				
Exempt dividends	**(11)**	(20)	**-**	-
Non-assessable income	**(5)**	(5)	**-**	-
Non-deductible expenses	**14**	15	**13**	13
Other items	**(9)**	4	**(63)**	(92)
Total income tax expense	**292**	297	**129**	106
Comprising:				
Current income tax	**294**	310	**128**	122
Deferred income tax	**3**	(17)	**6**	(11)
Future income tax benefit	**(5)**	4	**(5)**	(5)
Total income tax expense	**292**	297	**129**	106
DEFERRED INCOME TAX				
Balance at beginning of year	**6**	23	**3**	14
Current year timing differences	**3**	(17)	**6**	(11)
Balance at year end	**9**	6	**9**	3
FUTURE INCOME TAX BENEFIT				
Balance at beginning of year	**115**	119	**104**	99
Current year timing differences	**5**	(4)	**5**	5
Prior year timing differences	**(2)**	-	**(3)**	-
Balance at year end	**118**	115	**106**	104

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

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 08 IMPUTATION CREDIT ACCOUNT				
Balance at beginning of year	**120**	55	**41**	-
Imputation credits attached to dividends received during the year	**5**	3	**-**	-
Imputation credits attached to dividends paid during the year	**(29)**	(26)	**-**	-
Income tax payments during the year	**217**	88	**78**	41
Balance at year end	**313**	120	**119**	41

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

Notes to the financial statements

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 09 DUE FROM OTHER FINANCIAL INSTITUTIONS				
At call	**316**	287	**315**	286
Term	**-**	67	**-**	67
Total due from other financial institutions	**316**	354	**315**	353
NOTE 10 TRADING SECURITIES				
Treasury bills	**668**	1,092	**668**	1,092
Certificates of deposit	**2,032**	1,147	**2,032**	1,147
Commercial paper	**383**	124	**383**	124
New Zealand Government stock	**365**	157	**365**	157
Other trading securities	**110**	133	**110**	133
Total trading securities	**3,558**	2,653	**3,558**	2,653

As at 30 September 2005, included in trading securities of the NZ Banking Group and the NZ Bank were assets of $326 million encumbered through repurchase agreements (30 September 2004: $154 million).

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 11 LOANS				
Overdrafts	**1,166**	1,046	**1,166**	1,046
Credit card outstandings	**978**	923	**907**	844
Overnight and at call money market loans	**1,552**	1,187	**1,552**	1,187
Term loans:				
Housing	**21,447**	18,835	**21,215**	18,504
Non-housing	**11,406**	9,566	**11,406**	9,556
Other	**846**	4,769	**846**	581
Total gross loans	**37,395**	36,326	**37,092**	31,718
Provisions for bad and doubtful debts	**(301)**	(277)	**(297)**	(270)
Total net loans	**37,094**	36,049	**36,795**	31,448

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

The NZ Banking Group had set-off agreements in respect of loans made to a bank, the maturity of which was linked strictly to an agreement to repay specific borrowings by the NZ Banking Group from that bank. The interest rate payable on the borrowings was lower than that receivable on the loans. As at 30 September 2005, no loans (30 September 2004: $3,650 million) had been offset against related borrowings (30 September 2004: $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.

	NZ Banking Group					
	2005			2004		
	Non-accrual assets $m	Restructured assets $m	Total $m	Non-accrual assets $m	Restructured assets $m	Total $m

NOTE 12 IMPAIRED ASSETS

	Non-accrual assets 2005 $m	Restructured assets 2005 $m	Total 2005 $m	Non-accrual assets 2004 $m	Restructured assets 2004 $m	Total 2004 $m
Gross impaired assets	**80**	-	**80**	58	-	58
Specific provisions	**(20)**	-	**(20)**	(8)	-	(8)
Net impaired assets	**60**	-	**60**	50	-	50
GROSS IMPAIRED ASSETS						
Balance at beginning of year	**58**	-	**58**	71	-	71
Additions	**87**	**1**	**88**	221	-	221
Amounts written off	**(3)**	-	**(3)**	(14)	-	(14)
Returned to performing or repaid	**(62)**	**(1)**	**(63)**	(220)	-	(220)
Balance at year end	**80**	-	**80**	58	-	58
Interest forgone for the year on the above impaired assets	**2**	-	**2**	2	-	2
SPECIFIC PROVISIONS						
Balance at beginning of year	**8**	-	**8**	8	-	8
Charge to statement of financial performance	**22**	-	**22**	17	-	17
Specific provisions no longer required	**(9)**	-	**(9)**	(10)	-	(10)
Bad debts written off	**(1)**	-	**(1)**	(7)	-	(7)
Balance at year end	**20**	-	**20**	8	-	8

	2005 $m	2004 $m
GENERAL PROVISION		
Balance at beginning of year	**269**	258
Charge to statement of financial performance	**12**	11
Balance at year end	**281**	269
PAST DUE ASSETS		
Balance at beginning of year	**31**	197
Additions	**37**	37
Deletions	**(31)**	(203)
Balance at year end	**37**	31
Interest forgone for the year on the above past due assets	-	-
OTHER ASSETS UNDER ADMINISTRATION		
Balance at beginning of year	**56**	-
Additions	**16**	57
Deletions	**(56)**	(1)
Balance at year end	**16**	56

NOTE 12 IMPAIRED ASSETS continued

	NZ Bank					
	2005			2004		
	Non-accrual assets $m	Restructured assets $m	Total $m	Non-accrual assets $m	Restructured assets $m	Total $m
Gross impaired assets	80	-	80	55	-	55
Specific provisions	(20)	-	(20)	(8)	-	(8)
Net impaired assets	60	-	60	47	-	47
GROSS IMPAIRED ASSETS						
Balance at beginning of year	55	-	55	67	-	67
Additions	87	1	88	221	-	221
Amounts written off	(3)	-	(3)	(14)	-	(14)
Returned to performing or repaid	(59)	(1)	(60)	(219)	-	(219)
Balance at year end	80	-	80	55	-	55
Interest forgone for the year on the above impaired assets	2	-	2	2	-	2
SPECIFIC PROVISIONS						
Balance at beginning of year	8	-	8	8	-	8
Charge to statement of financial performance	22	-	22	17	-	17
Specific provisions no longer required	(9)	-	(9)	(10)	-	(10)
Bad debts written off	(1)	-	(1)	(7)	-	(7)
Balance at year end	20	-	20	8	-	8

	2005 $m	2004 $m
GENERAL PROVISION		
Balance at beginning of year	262	250
Charge to statement of financial performance	15	12
Balance at year end	277	262
PAST DUE ASSETS		
Balance at beginning of year	24	186
Additions	33	33
Deletions	(26)	(195)
Balance at year end	31	24
Interest forgone for the year on the above past due assets	-	-
OTHER ASSETS UNDER ADMINISTRATION		
Balance at beginning of year	56	-
Additions	16	57
Deletions	(56)	(1)
Balance at year end	16	56

There are no unrecognised impaired assets. Other Assets Under Administration is a new requirement with effect from 31 March 2005. The data to ascertain the opening position as at 1 October 2003 is not available. The NZ Banking Group does not have any real estate or other assets acquired through security enforcement.

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 13 INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES				
Total interest earning assets	**41,675**	39,303	**42,286**	39,481
Total interest bearing liabilities	**36,524**	33,039	**39,530**	36,076

NOTE 14 RELATED ENTITIES

NZ BANKING GROUP

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited, BT Financial Group (NZ) Limited and its subsidiary BT Funds Management (NZ) Limited (funds management company), Westpac Group Investment - NZ - Limited and its subsidiaries and Westpac Financial Services Group - NZ - Limited and its subsidiaries.

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

Name of subsidiary	Principal activity	Notes
Augusta (1962) Limited	Finance company	
Augusta Equities Limited	Finance company	
Westpac Tasman No. 2 Pty Limited	*Finance company, sold 27 July 2005*	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
Electric Investment (ANZ) Incorporated *	*Finance company, sold 2 July 2004*	*Formerly 60 percent owned*
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
First Data Capital, Inc. *	*Finance company, sold 11 March 2004*	*Formerly 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	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
Sfaka Investments Limited	*Finance company, amalgamated with parent 29 September 2005*	
TB Group Trustees Limited	*Non-trading company, amalgamated with parent 29 September 2005*	
Westpac Fund Acceptances - NZ - Limited	*Finance company, amalgamated with parent 29 September 2005*	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Limited	*Finance company, sold 29 September 2004*	
Bag Inns Two Limited	*Finance company, sold 27 September 2005*	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
BAK Consolidated Holdings Overseas Partners *	*Finance partnership, sold 19 May 2005*	*Formerly 76 percent owned*
Calstock Partners *	*Finance partnership, sold 19 May 2005*	*Formerly 67 percent owned*
NZA Overseas Funding *	*Finance partnership, sold 19 May 2005*	*Formerly 76 percent owned*
Willowemoc Partners *	*Finance partnership, sold 19 May 2005*	*Formerly 67 percent owned*
Westpac Overseas Investments Limited	Finance company	
Hudson Loft Finance LLC *	*Finance company, sold 31 May 2005*	*Formerly 60 percent owned*
Westpac Finance Limited	Finance company	
Westpac (NZ) Investments Limited	Property owning and capital funding company	
WestpacTrust Securities NZ Limited	Funding company	
Pacific Structured Funding NZ Limited	*Funding company, amalgamated with parent 18 April 2005*	

* These subsidiaries represented interests in structured finance arrangements, in which beneficial interests, but no voting rights, were held.

Notes to the financial statements

NOTE 14 RELATED ENTITIES continued

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

Name of subsidiary	Principal activity	Notes
Westpac Life - NZ - Limited	Life insurance company	
Westpac Investment Management - NZ - Limited	*Investment management company, sold to BT Funds Management (NZ) Limited and then amalgamated with new parent on 30 June 2004*	
Westpac Nominees - NZ - Limited	Nominee company	
Westpac Superannuation Nominees - NZ - Limited	Nominee company	

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a balance date of 30 September and are incorporated in New Zealand, except TBNZ Investments (UK) Limited which is incorporated in the United Kingdom.

Tasman Funding No. 1 Limited and Tasman Funding No. 2 Limited, wholly owned non-trading subsidiaries of a member of the Overseas Banking Group, were incorporated on 15 August 2005. Hastings Forestry Investments Limited, a wholly owned subsidiary of a member of the Overseas Banking Group, was incorporated on 14 May 2004.

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

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

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

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

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

ACQUISITIONS AND DISPOSALS OF RELATED ENTITIES

During the year ended 30 September 2005, a NZ Banking Group subsidiary, Westpac Financial Synergy Limited, sold its four subsidiaries for $2 billion to a third party. The subsidiaries sold were BAK Consolidated Holdings Overseas Partners, Calstock Partners, NZA Overseas Funding and Willowemoc Partners. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2005, a NZ Banking Group subsidiary, Westpac Overseas Investments Limited sold its subsidiary, Hudson Loft Finance LLC for $1.5 billion to a third party. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2005, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold one of its subsidiaries, Bag Inns No. 2 Limited for $28 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2005, the NZ Banking Group disposed of its interest in Westpac Tasman No. 2 Pty Limited to a member of the Overseas Banking Group for $650 million. Sales proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2005, a NZ Banking Group subsidiary, Pacific Structured Funding NZ Limited, was amalgamated with its immediate parent company, WestpacTrust Securities NZ Limited, pursuant to Part XIII of the Companies Act 1993. This amalgamation had no material impact on the statement of financial performance.

During the year ended 30 September 2005, three NZ Banking Group subsidiaries, TB Group Trustees Limited, Westpac Fund Acceptances - NZ - Limited and Sfaka Investments Limited were amalgamated with their immediate parent company, Westpac Capital - NZ - Limited, pursuant to Part XIII of the Companies Act 1993. These amalgamations had no material impact on the statement of financial performance.

NOTE 14 RELATED ENTITIES continued

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

During the year ended 30 September 2004, Westpac Holdings - NZ - Limited sold four of its subsidiaries to Westpac Financial Services Group - NZ - Limited at fair value. The subsidiaries sold were Westpac Life - NZ - Limited, Westpac Investment Management - NZ - Limited, Westpac Nominees - NZ - Limited and Westpac Superannuation Nominees - NZ - Limited. There was no material impact on the statements of financial position and financial performance of the NZ Banking Group arising from this sale.

During the year ended 30 September 2004, Westpac Financial Services Group - NZ - Limited sold one of its subsidiaries, Westpac Investment Management - NZ - Limited to BT Funds Management (NZ) Limited at fair value. Westpac Investment Management - NZ - Limited was then amalgamated with its new immediate parent BT Funds Management (NZ) Limited pursuant to Part XIII of the Companies Act 1993. There was no material impact on the statements of financial position and financial performance of the NZ Banking Group arising from these events.

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

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

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

NATURE OF TRANSACTIONS

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

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

The NZ Bank pays subvention payments to the members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Bank during the year ended 30 September 2005 was $75 million (30 September 2004: $62 million). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

Life insurance products are sold by the NZ Bank on behalf of other members of the NZ Banking Group. The NZ Bank receives commission from these sales. Commission received during the year ended 30 September 2005 was $21 million (30 September 2004: $22 million).

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Bank. Management fees paid during the year ended 30 September 2005 were $6 million (30 September 2004: $8 million). Rental income is paid by the NZ Bank to Westpac (NZ) Investments Limited. The total charge during the year ended 30 September 2005 was $81 million (30 September 2004: $68 million).

A member of the NZ Banking Group provides funding to the NZ Bank. Management fees are paid by the NZ Bank for these services. Management fees paid during the year ended 30 September 2005 were $0.5 million (30 September 2004: $1 million).

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

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

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

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

	NZ Banking Group			NZ Bank		
	Cost $m	**Accumulated depreciation $m**	**Book value $m**	**Cost $m**	**Accumulated depreciation $m**	**Book value $m**
NOTE 15 PROPERTY, PLANT AND EQUIPMENT						
AS AT 30 SEPTEMBER 2005						
Freehold buildings and improvements	-	-	-	-	-	-
Leasehold improvements	**139**	**(88)**	**51**	**1**	**(1)**	-
Furniture and fittings	**107**	**(81)**	**26**	**10**	**(9)**	**1**
Computer equipment and software	**389**	**(253)**	**136**	**386**	**(251)**	**135**
Total property, plant and equipment	**635**	**(422)**	**213**	**397**	**(261)**	**136**
AS AT 30 SEPTEMBER 2004						
Freehold buildings and improvements	1	-	1	-	-	-
Leasehold improvements	134	(77)	57	1	(1)	-
Furniture and fittings	102	(75)	27	10	(9)	1
Computer equipment and software	337	(210)	127	335	(207)	128
Total property, plant and equipment	574	(362)	212	346	(217)	129

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 16 INTANGIBLE ASSETS				
Gross amount at beginning of year	**936**	936	**783**	783
Accumulated amortisation at beginning of year	**(372)**	(325)	**(306)**	(267)
Amortisation recognised during the year	**(47)**	(47)	**(40)**	(39)
Balance at year end	**517**	564	**437**	477
Comprising:				
Gross amount	**936**	936	**783**	783
Accumulated amortisation	**(419)**	(372)	**(346)**	(306)
	517	564	**437**	477
NOTE 17 OTHER ASSETS				
Accrued interest receivable	**121**	144	**119**	99
Securities purchased under agreements to resell	**569**	158	**569**	158
Securities sold not delivered	**162**	99	**162**	99
Other financial markets assets	**960**	987	**960**	986
Current income tax receivable	**46**	40	**20**	24
Life insurance assets	**64**	72	-	-
Future income tax benefit	**118**	115	**106**	104
Other assets	**223**	193	**201**	73
Total other assets	**2,263**	1,808	**2,137**	1,543
NOTE 18 DUE TO OTHER FINANCIAL INSTITUTIONS				
At call	**225**	180	**225**	180
Term	**1,520**	891	**1,520**	891
Total due to other financial institutions	**1,745**	1,071	**1,745**	1,071

	NZ Banking Group		NZ Bank	
	2005	2004	**2005**	2004
	$m	$m	**$m**	$m
NOTE 19 DEPOSITS				
Non-interest bearing[1]	**2,030**	1,919	**2,030**	1,919
Certificates of deposit	**3,847**	3,311	**3,847**	3,311
Other interest bearing:				
At call[1]	**9,376**	8,224	**9,376**	8,224
Term[1]	**12,311**	11,871	**12,311**	11,866
Total deposits	**27,564**	25,325	**27,564**	25,320

DEPOSITS OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

	NZ Banking Group			
	2005 Total $m	**2005 Weighted average interest rate %**	2004 Total $m	2004 Weighted average interest rate %
One year or less	**27,153**		24,783	
Between one and two years	**252**	**6.3**	368	5.8
Between two and five years	**155**	**5.8**	174	6.4
Over five years	**4**	**-**	-	-
Total deposits	**27,564**		25,325	

DEPOSITS OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank			
One year or less	**27,153**		24,778	
Between one and two years	**252**	**6.3**	368	5.8
Between two and five years	**155**	**5.8**	174	6.4
Over five years	**4**	**-**	-	-
Total deposits	**27,564**		25,320	

1. During the year ended 30 September 2005, a number of deposits were reclassified between non-interest bearing and interest bearing and between at call and term. Prior year figures have been restated to assist comparability.

NOTE 20 BONDS, NOTES AND COMMERCIAL PAPER

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

	NZ Banking Group			
	2005 Total $m	**2005 Weighted average interest rate %**	2004 Total $m	2004 Weighted average interest rate %
One year or less	**7,318**		5,743	
Between one and two years	**550**	**6.1**	1,196	4.8
Between two and five years	**440**	**6.9**	833	6.2
Total bonds, notes and commercial paper	**8,308**		7,772	

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

	NZ Bank			
One year or less	**100**		100	
Between one and two years	**-**	**-**	100	6.3
Between two and five years	**-**	**-**	-	-
Total bonds, notes and commercial paper	**100**		200	

	NZ Banking Group		NZ Bank	
	2005 **$m**	2004 $m	**2005** **$m**	2004 $m
NOTE 21 OTHER LIABILITIES				
Accrued interest payable	**237**	197	**170**	147
Securities purchased not delivered	**158**	204	**158**	204
Securities sold short	**19**	30	**19**	30
Securities sold under agreements to repurchase	**326**	154	**326**	154
Other financial markets liabilities	**1,153**	1,659	**1,153**	1,659
Current income tax payable	-	33	-	-
Provision for staff benefits	**41**	39	**39**	38
Policyholder liabilities	**(3)**	(1)	-	-
Provision for deferred income tax	**9**	6	**9**	3
Claims reserves	**8**	7	-	-
Other liabilities	**147**	261	**139**	181
Total other liabilities	**2,095**	2,589	**2,013**	2,416

NOTE 22 SUBORDINATED DEBT

SUBORDINATED DEBENTURES

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

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

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

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

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

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 23 CONVERTIBLE DEBENTURES				
Fixed Interest Resettable Trust Securities	**715**	715	**715**	715
Trust Preferred Securities	**1,279**	1,279	**1,279**	1,279
Total convertible debentures	**1,994**	1,994	**1,994**	1,994

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 Trust 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 an annual 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 JPMorgan Chase Bank as trustee of the Tavarua Funding Trust III ("Funding Trust III"). They represent the proceeds (net of issue costs) of approximately US$750 million of Trust Preferred Securities ("2003 TPS") issued by the Overseas Banking Group in the United States of America.

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

The convertible debentures will pay semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 7.57% up to but excluding 30 September 2013. From, and including, 30 September 2013, the convertible debentures will pay quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate equal to the New Zealand Bank Bill Rate plus 2.20% per annum. 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.

NOTE 23 CONVERTIBLE DEBENTURES continued

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

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

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

	NZ Banking Group	
	2005 $m	2004 $m
NOTE 24 NZ CLASS SHARES		
NZ Class Shares on issue	-	598
NZ Class Shares held as Treasury Stock	-	(19)
Balance at year end	-	579

On 12 October 1999, a controlled entity, Westpac (NZ) Investments Limited ("WNZIL"), issued 54,393,306 NZ Class Shares. A first instalment of $7.20 per NZ Class Share was received on application and a second instalment of $4.75 per NZ Class Share was received on 20 December 2000. The NZ Class Shares were recorded at the total of the first instalment and the present value of the second instalment, net of issue costs.

Following a number of buy-backs since 2002 and the exchange of NZ Class Shares for Overseas Bank ordinary shares (described below) in July 2005, there were no NZ Class Shares in issue as at 30 September 2005 (30 September 2004: 52,635,530) with no NZ Class Shares held as Treasury Stock (30 September 2004: 1,059,401).

EXCHANGE EVENT

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

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

NZ Class Shares ceased trading on the New Zealand Stock Market from the close of business on 1 July 2005. Formal notification of the exchange was sent to NZ Class Shareholders on 7 July 2005. As a result, NZ Class Shareholders were entitled to receive one Overseas Bank ordinary share for each NZ Class Share held on the exchange date. The Overseas Bank ordinary shares were allotted on 11 July 2005. In exchange, all NZ Class Shares on issue were transferred to the Overseas Bank.

NZ Class Shareholders received a final imputed dividend on the NZ Class Shares, which was paid on 1 July 2005.

BUY-BACK AND CANCELLATION

On 27 July 2005, WNZIL bought back all the NZ Class Shares held by the Overseas Bank for $618 million and the shares were subsequently cancelled.

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 25 COMMITMENTS AND CONTINGENT LIABILITIES				
COMMITMENTS FOR CAPITAL EXPENDITURE				
Due within one year	**28**	44	**26**	40
LEASE COMMITMENTS (all leases are classified as operating leases)				
One year or less	**37**	32	**37**	32
Between one and two years	**33**	26	**33**	26
Between two and five years	**60**	49	**60**	49
Over five years	**16**	22	**16**	22
Total lease commitments	**146**	129	**146**	129
CONTINGENT LIABILITIES				
Direct credit substitutes	**252**	372	**252**	372
Transaction related contingent items	**574**	535	**574**	535
Trade related contingent liabilities	**648**	628	**648**	628
Total contingent liabilities	**1,474**	1,535	**1,474**	1,535

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

NEW ZEALAND INLAND REVENUE DEPARTMENT INVESTIGATION

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

The transactions in question have been progressively run down and have now all been unwound. Potential interest continues to accrue on the core tax if the NZIRD is successful in its challenge.

On 30 September 2004, the NZ Bank received assessments totalling $18 million ($25 million with interest) in respect of three transactions for the 1999 tax year. On 31 March 2005, the NZIRD issued further amended tax assessments relating to the 2000 tax year which will impact three structured finance transactions in place in the 1999 year and an additional two structured finance transactions undertaken in the 2000 year only. The maximum potential tax liability reassessed for the 2000 year is $61 million (with interest this increases to $85 million). The potential primary tax in dispute for all five of these transactions for the years up to and including 30 September 2005 is $220 million (this includes the amounts noted above). With interest this increases to $296 million (calculated to 30 September 2005). The additional tax assessed in respect of the 1999 and 2000 tax years ($79 million tax plus interest as noted above) has been paid to the NZIRD as "tax in dispute" to prevent further interest accruing. This has been recorded in the financial statements as a receivable in "other assets" reflecting the NZ Bank's position as noted below.

The NZIRD is also investigating other transactions undertaken by the NZ Bank, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the years up to and including the year ended 30 September 2005, the overall primary tax in dispute will be approximately $611 million (this includes the amounts noted above). With interest this increases to approximately $750 million (calculated to 30 September 2005).

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

As previously disclosed, the NZ Bank is confident that the original tax treatment applied by it in all cases is correct. The NZ Bank remains of the view that the transactions are legitimate and do not constitute tax avoidance. Accordingly, no tax provision has been raised in respect of these matters. The NZ Bank sought a binding ruling from the NZIRD on an initial transaction in 1999 which, following extensive review by the NZIRD, was confirmed in early 2001. The principles underlying that ruling are applicable to, and have been followed in, all subsequent transactions.

NOTE 25 COMMITMENTS AND CONTINGENT LIABILITIES continued

OTHER CONTINGENT ASSETS AND LIABILITIES

The New Zealand Commerce Commission is prosecuting the NZ Bank along with five other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 106 charges have been served on the NZ Bank. The NZ Bank has entered not guilty pleas to the charges which are not expected to be heard before mid-2006. The Commerce Commission may also prosecute The Warehouse Financial Services Limited, a member of the NZ Banking Group. As at the date of signing of the General Disclosure Statement by Directors, charges have not been served on The Warehouse Financial Services Limited. Penalties under the Fair Trading Act 1986 could include a fine of up to $200,000 per charge, and refunds of some or all of the international currency conversion fees collected by the NZ Bank or The Warehouse Financial Services Limited may need to be made. The NZ Bank is considering its position in relation to the charges, but at this stage does not consider it necessary to raise a specific provision in its financial statements.

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 its members. Additionally, there are cross guarantee obligations for the Asia-Pacific region. There are caps in respect of both these obligations and reserves are held by Visa to cover the non-performance of any of its members. It is not envisaged that any liability resulting in a material loss to the NZ Bank will arise from these contingencies.

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

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

The NZ Banking Group has a contingent asset in respect of $2 million (30 September 2004: $7 million) contributed to various funds managed by its wealth management subsidiaries. During the year ended 30 September 2005, a sum of $5 million was returned to the NZ Banking Group and was recognised in other non-interest income (30 September 2004: $20 million). The repayment of the remaining sum is dependent on the future performance of these funds.

OTHER COMMITMENTS

As at 30 September 2005, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business as detailed in note 26. 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 26 CREDIT RISK

RISK WEIGHTED EXPOSURES

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

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

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

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

NOTE 26 CREDIT RISK continued

	NZ Banking Group 2005				
CALCULATION OF ON-BALANCE SHEET EXPOSURES	Principal amount $m			Risk weighting	Risk weighted exposure $m
Cash and short term claims on government	1,608			0%	-
Long term claims on government	241			10%	24
Claims on banks	2,386			20%	477
Claims on public sector entities	204			20%	41
Residential mortgages	21,496			50%	10,748
Other assets	17,638			100%	17,638
Non-risk weighted assets	1,477				-
Total on-balance sheet exposures	45,050				28,928
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	691			50%	346
Total securitised mortgage exposures	691				346

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	252	100%	252	100%	252
Total direct credit substitutes	252		252		252
COMMITMENTS					
Commitments with certain drawdown	28	100%	28	100%	28
Housing loan commitments with certain drawdown	97	100%	97	50%	49
Transaction related contingent items	574	50%	287	100%	287
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,229	50%	3,115	100%	3,115
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,741	0%	-	0%	-
Total commitments	13,317		3,657		3,609
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	38,636		642	25%	162
Options	124		1	0%	-
Swaps	16,552		854	28%	242
Interest rate contracts:					
Forwards	7,625		4	50%	2
Futures	11,404		-	0%	-
Options	4,756		4	50%	2
Swaps	97,660		864	29%	251
Total market related contracts (derivatives)	176,757		2,369		659
Total off-balance sheet exposures	190,326		6,278		4,520
Total risk weighted exposures					33,794

NOTE 26 CREDIT RISK continued

NZ Banking Group
2004

CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal amount $m	Risk weighting	Risk weighted exposure $m
Cash and short term claims on government	1,519	0%	-
Long term claims on government	100	10%	10
Claims on banks	4,589	20%	918
Claims on public sector entities	189	20%	38
Residential mortgages	18,888	50%	9,444
Other assets	15,654	100%	15,654
Non-risk weighted assets	1,552		-
Total on-balance sheet exposures	42,491		26,064

CALCULATION OF SECURITISED MORTGAGE EXPOSURES

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

CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weighting	Risk weighted exposure $m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
Total direct credit substitutes	372		372		372
COMMITMENTS					
Commitments with certain drawdown	44	100%	44	100%	44
Housing loan commitments with certain drawdown	49	100%	49	50%	25
Transaction related contingent items	535	50%	268	100%	268
Short term, self liquidating trade related contingent liabilities	628	20%	126	100%	126
Other commitments to provide financial services which have an original maturity of one year or more	5,205	50%	2,603	100%	2,603
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,675	0%	-	0%	-
Total commitments	12,136		3,090		3,066
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	26,931		665	26%	174
Options	107		1	0%	-
Swaps	16,798		1,304	25%	332
Interest rate contracts:					
Forwards	11,673		8	50%	4
Futures	5,258		-	0%	-
Options	3,503		8	50%	4
Swaps	79,923		727	30%	221
Total market related contracts (derivatives)	144,193		2,713		735
Total off-balance sheet exposures	156,701		6,175		4,173
Total risk weighted exposures					30,616

NOTE 26 CREDIT RISK continued

	NZ Bank 2005				
CALCULATION OF ON-BALANCE SHEET EXPOSURES	Principal amount $m			Risk weighting	Risk weighted exposure $m
Cash and short term claims on government	1,595			0%	-
Long term claims on government	241			10%	24
Claims on banks	2,385			20%	477
Claims on public sector entities	204			20%	41
Residential mortgages	21,263			50%	10,632
Other assets	20,110			100%	20,110
Non-risk weighted assets	1,397				-
Total on-balance sheet exposures	47,195				31,284
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	691			50%	346
Total securitised mortgage exposures	691				346
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	252	100%	252	100%	252
Total direct credit substitutes	252		252		252
COMMITMENTS					
Commitments with certain drawdown	26	100%	26	100%	26
Housing loan commitments with certain drawdown	97	100%	97	50%	49
Transaction related contingent items	574	50%	287	100%	287
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,229	50%	3,115	100%	3,115
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,741	0%	-	0%	-
Total commitments	13,315		3,655		3,607
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	38,636		642	25%	162
Options	124		1	0%	-
Swaps	16,552		854	28%	242
Interest rate contracts:					
Forwards	7,625		4	50%	2
Futures	11,404		-	0%	-
Options	4,756		4	50%	2
Swaps	97,660		864	29%	251
Total market related contracts (derivatives)	176,757		2,369		659
Total off-balance sheet exposures	190,324		6,276		4,518
Total risk weighted exposures					36,148

NOTE 26 CREDIT RISK continued

	NZ Bank 2004				
CALCULATION OF ON-BALANCE SHEET EXPOSURES	Principal amount $m			Risk weighting	Risk weighted exposure $m
Cash and short term claims on government	1,500			0%	-
Long term claims on government	100			10%	10
Claims on banks	353			20%	71
Claims on public sector entities	189			20%	38
Residential mortgages	18,556			50%	9,278
Other assets	21,252			100%	21,252
Non-risk weighted assets	1,463				-
Total on-balance sheet exposures	43,413				30,649
CALCULATION OF SECURITISED MORTGAGE EXPOSURES					
Securitised mortgages	757			50%	379
Total securitised mortgage exposures	757				379
CALCULATION OF OFF-BALANCE SHEET EXPOSURES	Principal amount $m	Credit conversion factor	Credit equivalent amount $m	Average counterparty risk weighting	Risk weighted exposure $m
DIRECT CREDIT SUBSTITUTES					
Standby letters of credit and financial guarantees	372	100%	372	100%	372
Total direct credit substitutes	372		372		372
COMMITMENTS					
Commitments with certain drawdown	40	100%	40	100%	40
Housing loan commitments with certain drawdown	49	100%	49	50%	25
Transaction related contingent items	535	50%	268	100%	268
Short term, self liquidating trade related contingent liabilities	628	20%	126	100%	126
Other commitments to provide financial services which have an original maturity of one year or more	5,205	50%	2,603	100%	2,603
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,675	0%	-	0%	-
Total commitments	12,132		3,086		3,062
MARKET RELATED CONTRACTS (DERIVATIVES)					
Foreign exchange contracts:					
Forwards	26,931		665	26%	174
Options	107		1	0%	-
Swaps	16,798		1,304	25%	332
Interest rate contracts:					
Forwards	11,673		8	50%	4
Futures	5,258		-	0%	-
Options	3,503		8	50%	4
Swaps	80,556		735	31%	225
Total market related contracts (derivatives)	144,826		2,721		739
Total off-balance sheet exposures	157,330		6,179		4,173
Total risk weighted exposures					35,201

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
NOTE 27 CONCENTRATION OF CREDIT EXPOSURES				
ON-BALANCE SHEET CREDIT EXPOSURES CONSIST OF:				
Cash	**96**	101	**96**	101
Due from other financial institutions	**316**	354	**315**	353
Trading securities	**3,558**	2,653	**3,558**	2,653
Loans	**37,094**	36,049	**36,795**	31,448
Due from related entities	**993**	750	**1,944**	4,932
Other assets	**2,145**	1,693	**2,031**	1,439
Total on-balance sheet credit exposures	**44,202**	41,600	**44,739**	40,926
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY GEOGRAPHICAL AREAS:				
New Zealand	**42,988**	36,369	**43,426**	40,528
Australia and Asia-Pacific	**1,214**	1,001	**1,313**	356
United Kingdom and Europe	**-**	42	**-**	42
North America	**-**	4,188	**-**	-
Total on-balance sheet credit exposures	**44,202**	41,600	**44,739**	40,926
ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	**1,626**	1,857	**1,626**	1,857
Agriculture	**2,999**	2,618	**2,999**	2,618
Other primary industries	**363**	420	**363**	420
Commercial and financial	**14,340**	15,055	**14,248**	10,736
Real estate – construction	**477**	301	**477**	290
Real estate – mortgage	**21,496**	18,901	**21,263**	18,610
Instalment loans and other personal lending	**1,966**	1,774	**1,895**	1,652
Subtotal	**43,267**	40,926	**42,871**	36,183
General provision	**(281)**	(269)	**(277)**	(262)
Due from related entities	**993**	750	**1,944**	4,932
Other assets	**223**	193	**201**	73
Total on-balance sheet credit exposures	**44,202**	41,600	**44,739**	40,926
OFF-BALANCE SHEET CREDIT EXPOSURES BY CREDIT EQUIVALENT CONSIST OF:				
Contingent liabilities and commitments	**3,909**	3,462	**3,907**	3,458
Derivatives	**2,369**	2,713	**2,369**	2,721
Total off-balance sheet credit exposures by credit equivalent	**6,278**	6,175	**6,276**	6,179
ANALYSIS OF OFF-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	**155**	125	**155**	125
Agriculture	**34**	28	**34**	28
Other primary industries	**14**	15	**14**	15
Commercial and financial	**4,087**	4,211	**4,085**	4,215
Real estate – construction	**36**	79	**36**	79
Real estate – mortgage	**1,945**	1,709	**1,945**	1,709
Instalment loans and other personal lending	**7**	8	**7**	8
Total off-balance sheet credit exposures by credit equivalent	**6,278**	6,175	**6,276**	6,179

Credit exposure is determined with reference to actual credit exposures.

NOTE 27 **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

10 - 20% of Overseas Banking Group's equity	As at 30 September 2005	Peak end-of-day for the three months ended 30 September 2005	As at 30 September 2004	Peak end-of-day for the three months ended 30 September 2004
Bank counterparties	-	-	-	-
Non-bank counterparties	-	-	-	-

Closely related counterparties

10 - 20% of Overseas Banking Group's equity	As at 30 September 2005	Peak end-of-day for the three months ended 30 September 2005	As at 30 September 2004	Peak end-of-day for the three months ended 30 September 2004
Bank counterparties	-	-	1	1
Non-bank counterparties	-	-	-	-

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

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

Individual counterparties

10 - 20% of Overseas Banking Group's equity	As at 30 September 2005	Percentage of large exposures	As at 30 September 2004	Percentage of large exposures
Credit rating of BBB- and above	-	-	-	-
Credit rating below BBB-	-	-	-	-
Without investment grade credit rating	-	-	-	-

Closely related counterparties

10 - 20% of Overseas Banking Group's equity	As at 30 September 2005	Percentage of large exposures	As at 30 September 2004	Percentage of large exposures
Credit rating of BBB- and above	-	-	2,000	100.0
Credit rating below BBB-	-	-	-	-
Without investment grade credit rating	-	-	-	-

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

NOTE 28 CONCENTRATION OF FUNDING

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
FUNDING CONSISTS OF:				
Due to other financial institutions	**1,745**	1,071	**1,745**	1,071
Deposits	**27,564**	25,325	**27,564**	25,320
Bonds, notes and commercial paper[1]	**8,308**	7,772	**100**	200
Due to related entities	**602**	522	**11,921**	11,197
Subordinated debt	**758**	785	**758**	785
Total funding	**38,977**	35,475	**42,088**	38,573
ANALYSIS OF FUNDING BY PRODUCT:				
Saving accounts	**2,474**	1,238	**2,474**	1,238
Certificates of deposits	**3,847**	3,311	**3,847**	3,311
Demand deposits	**6,825**	7,849	**6,825**	7,849
Other deposits and borrowings	**22,726**	20,699	**14,518**	13,122
Subordinated debt	**758**	785	**758**	785
Subtotal	**36,630**	33,882	**28,422**	26,305
Due to other financial institutions	**1,745**	1,071	**1,745**	1,071
Due to related entities	**602**	522	**11,921**	11,197
Total funding	**38,977**	35,475	**42,088**	38,573
ANALYSIS OF FUNDING BY GEOGRAPHICAL AREAS:[1]				
New Zealand	**29,044**	25,966	**40,350**	36,466
Australia and Asia-Pacific	**967**	1,322	**980**	1,322
United Kingdom and Europe	**2,780**	3,075	**-**	-
North America	**6,186**	5,112	**758**	785
Total funding	**38,977**	35,475	**42,088**	38,573
ANALYSIS OF FUNDING BY INDUSTRY AND ECONOMIC SECTOR:				
Government and other public authorities	**1,574**	1,367	**1,574**	1,367
Agriculture	**850**	709	**850**	709
Other primary industries	**176**	202	**176**	202
Commercial and financial	**21,928**	18,722	**13,720**	11,145
Households	**13,847**	13,953	**13,847**	13,953
Subtotal	**38,375**	34,953	**30,167**	27,376
Due to related entities	**602**	522	**11,921**	11,197
Total funding	**38,977**	35,475	**42,088**	38,573

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

NOTE 29 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 a portion of the NZ Banking Group's loan portfolio) with no significant change in credit risk, the carrying amount is a reasonable estimate of fair value.

TRADING SECURITIES

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

DUE FROM OTHER FINANCIAL INSTITUTIONS AND FIXED RATE LOANS

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

IMPAIRED ASSETS

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

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

For demand deposits, the fair value is the amount payable on demand as at balance 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.

SUBORDINATED DEBT

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

NOTE 29 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	NZ Banking Group			
	2005 Carrying amount $m	**2005 Estimated fair value $m**	2004 Carrying amount $m	2004 Estimated fair value $m
FINANCIAL ASSETS				
Cash	**96**	**96**	101	101
Due from other financial institutions	**316**	**316**	354	354
Trading securities	**3,558**	**3,558**	2,653	2,653
Loans	**37,094**	**37,000**	36,049	35,879
Due from related entities	**993**	**993**	750	750
Other assets	**2,099**	**2,213**	1,653	1,880
Total financial assets	**44,156**	**44,176**	41,560	41,617
Non-financial assets	**894**		931	
Total assets	**45,050**		42,491	
FINANCIAL LIABILITIES				
Due to other financial institutions	**1,745**	**1,745**	1,071	1,071
Deposits	**27,564**	**27,586**	25,325	25,334
Bonds, notes and commercial paper	**8,308**	**8,310**	7,772	7,775
Due to related entities	**602**	**602**	522	522
Other liabilities	**2,037**	**2,037**	2,504	2,504
Subordinated debt	**758**	**758**	785	785
Total financial liabilities	**41,014**	**41,038**	37,979	37,991
Non-financial liabilities	**58**		85	
Total liabilities	**41,072**		38,064	

	NZ Bank			
FINANCIAL ASSETS				
Cash	**96**	**96**	101	101
Due from other financial institutions	**315**	**315**	353	353
Trading securities	**3,558**	**3,558**	2,653	2,653
Loans	**36,795**	**36,701**	31,448	31,279
Due from related entities	**1,944**	**1,944**	4,932	4,932
Other assets	**2,011**	**2,125**	1,439	1,664
Total financial assets	**44,719**	**44,739**	40,926	40,982
Non-financial assets	**2,476**		2,487	
Total assets	**47,195**		43,413	
FINANCIAL LIABILITIES				
Due to other financial institutions	**1,745**	**1,745**	1,071	1,071
Deposits	**27,564**	**27,586**	25,320	25,329
Bonds, notes and commercial paper	**100**	**100**	200	199
Due to related entities	**11,921**	**11,923**	11,197	11,201
Other liabilities	**1,965**	**1,965**	2,375	2,375
Subordinated debt	**758**	**758**	785	785
Total financial liabilities	**44,053**	**44,077**	40,948	40,960
Non-financial liabilities	**48**		41	
Total liabilities	**44,101**		40,989	

NOTE 30 INTEREST RATE RISK

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

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

	NZ Banking Group 2005							
	Less than 1 month $m	Over 1 month to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate % [1]
FINANCIAL ASSETS								
Cash	-	-	-	-	-	96	96	-
Due from other financial institutions	106	-	-	-	-	210	316	3.9
Trading securities	3,561	-	-	-	-	(3)	3,558	7.0
Loans	17,664	3,422	6,942	9,303	64	(301)	37,094	8.4
Due from related entities	36	-	-	-	-	957	993	6.8
Other assets	577	-	-	-	-	1,522	2,099	6.5
Total financial assets	21,944	3,422	6,942	9,303	64	2,481	44,156	
Non-financial assets							894	
Total assets							45,050	
FINANCIAL LIABILITIES								
Due to other financial institutions	1,520	-	-	-	-	225	1,745	6.8
Deposits	16,826	4,816	3,480	408	4	2,030	27,564	6.1
Bonds, notes and commercial paper	3,574	3,555	554	625	-	-	8,308	4.2
Due to related entities	59	-	-	-	-	543	602	6.8
Other liabilities	345	-	-	-	-	1,692	2,037	5.6
Subordinated debt	-	-	-	-	758	-	758	5.3
Total financial liabilities	22,324	8,371	4,034	1,033	762	4,490	41,014	
Non-financial liabilities							58	
Total liabilities							41,072	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
(Payable)/receivable	(579)	1,071	(3,899)	1,356	2,051	-	-	

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

Notes to the financial statements

NOTE 30 INTEREST RATE RISK continued

	NZ Banking Group 2004							
	Less than 1 month $m	Over 1 month to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate % [1]
FINANCIAL ASSETS								
Cash	-	-	-	-	-	101	101	-
Due from other financial institutions	265	-	-	-	-	89	354	6.3
Trading securities	2,548	-	-	-	-	105	2,653	6.4
Loans	16,226	3,613	5,157	11,318	12	(277)	36,049	7.9
Due from related entities	6	-	-	-	-	744	750	6.3
Other assets	158	-	-	-	-	1,495	1,653	5.5
Total financial assets	19,203	3,613	5,157	11,318	12	2,257	41,560	
Non-financial assets							931	
Total assets							42,491	
FINANCIAL LIABILITIES								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	13,651	5,793	3,420	542	-	1,919	25,325	4.4
Bonds, notes and commercial paper	1,474	4,047	1,626	625	-	-	7,772	2.7
Due to related entities	1	-	-	-	-	521	522	6.3
Other liabilities	184	-	-	-	-	2,320	2,504	6.2
Subordinated debt	-	-	-	-	785	-	785	5.3
Total financial liabilities	16,201	9,840	5,046	1,167	785	4,940	37,979	
Non-financial liabilities							85	
Total liabilities							38,064	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
Receivable/(payable)	6,869	(1,333)	(2,951)	(3,283)	698	-	-	

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

Notes to the financial statements

NOTE 30 INTEREST RATE RISK continued

NZ Bank
2005

	Less than 1 month $m	Over 1 month to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate % [1]
FINANCIAL ASSETS								
Cash	-	-	-	-	-	96	96	-
Due from other financial institutions	106	-	-	-	-	209	315	3.9
Trading securities	3,561	-	-	-	-	(3)	3,558	7.0
Loans	17,448	3,413	6,882	9,285	64	(297)	36,795	8.4
Due from related entities	106	-	845	-	-	993	1,944	7.2
Other assets	576	-	-	-	-	1,435	2,011	6.5
Total financial assets	21,797	3,413	7,727	9,285	64	2,433	44,719	
Non-financial assets							2,476	
Total assets							47,195	
FINANCIAL LIABILITIES								
Due to other financial institutions	1,520	-	-	-	-	225	1,745	6.8
Deposits	16,826	4,816	3,480	408	4	2,030	27,564	6.1
Bonds, notes and commercial paper	-	100	-	-	-	-	100	6.3
Due to related entities	6,539	3,555	554	625	-	648	11,921	4.9
Other liabilities	345	-	-	-	-	1,620	1,965	5.6
Subordinated debt	-	-	-	-	758	-	758	5.3
Total financial liabilities	25,230	8,471	4,034	1,033	762	4,523	44,053	
Non-financial liabilities							48	
Total liabilities							44,101	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
(Payable)/receivable	(579)	1,071	(3,899)	1,356	2,051	-	-	

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

Notes to the financial statements

NOTE 30 INTEREST RATE RISK continued

	NZ Bank 2004							
	Less than 1 month $m	Over 1 month to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m	Weighted average interest rate % [1]
FINANCIAL ASSETS								
Cash	-	-	-	-	-	101	101	-
Due from other financial institutions	265	-	-	-	-	88	353	6.3
Trading securities	2,548	-	-	-	-	105	2,653	6.4
Loans	15,919	3,525	5,104	7,158	12	(270)	31,448	7.9
Due from related entities	181	-	-	4,611	-	140	4,932	6.7
Other assets	158	-	-	-	-	1,281	1,439	5.5
Total financial assets	19,071	3,525	5,104	11,769	12	1,445	40,926	
Non-financial assets							2,487	
Total assets							43,413	
FINANCIAL LIABILITIES								
Due to other financial institutions	891	-	-	-	-	180	1,071	6.3
Deposits	13,650	5,789	3,420	542	-	1,919	25,320	4.4
Bonds, notes and commercial paper	100	-	-	100	-	-	200	5.9
Due to related entities	4,417	4,047	1,626	525	-	582	11,197	3.7
Other liabilities	184	-	-	-	-	2,191	2,375	6.2
Subordinated debt	-	-	-	-	785	-	785	5.3
Total financial liabilities	19,242	9,836	5,046	1,167	785	4,872	40,948	
Non-financial liabilities							41	
Total liabilities							40,989	
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS								
Net interest rate contracts (principal):								
Receivable/(payable)	7,653	(1,333)	(2,951)	(3,283)	(86)	-	-	

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

NOTE 31 FOREIGN CURRENCY RISK

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

NET OPEN POSITION

	NZ Banking Group		NZ Bank	
	2005 $m	2004 $m	**2005 $m**	2004 $m
Receivable/(payable)				
Australian Dollar	**4**	(27)	**4**	(27)
Euro	**-**	1	**-**	1
Great Britain Pound	**(3)**	-	**(3)**	-
Japanese Yen	**-**	-	**-**	-
United States Dollar	**(30)**	(12)	**(30)**	(12)
Other	**-**	1	**-**	1

NOTE 32 CAPITAL ADEQUACY

	Overseas Banking Group		
	2005 %	2004 %	Minimum capital adequacy ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	**7.2**	6.9	4.0
Capital, expressed as a percentage of risk weighted exposures	**9.7**	9.7	8.0

	Overseas Bank		
	2005 %	2004 %	Minimum capital adequacy ratio as specified by APRA %
Tier One Capital, expressed as a percentage of risk weighted exposures	**6.5**	6.1	4.0
Capital, expressed as a percentage of risk weighted exposures	**9.4**	9.6	8.0

The Overseas Bank and the Overseas Banking Group are subject to the capital adequacy requirements as specified by 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. Under these requirements, the Overseas Bank and the Overseas Banking Group are required to hold minimum capital at least equal to that specified under the Basel framework.

The Overseas Bank and the Overseas Banking Group exceed the minimum capital adequacy requirements as specified by APRA as at 30 September 2005. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

NOTE 33 SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

SECURITISATION

As at 30 September 2005, the NZ Banking Group had securitised assets amounting to $691 million (30 September 2004: $757 million). These assets had been sold by the NZ Bank to WST-NZ Series WLIS #6 Trust ("WST Trust"), the Home Loan Trust ("HLT") and the Mortgage Income Fund (the "MIF") via the HLT.

The WST Trust was established in 1999 pursuant to a Master Trust Deed between Westpac Securities Administration Limited ("WSAL") and the Mortgage Company dated 14 February 1997, and a Series Notice for the WST Trust issued on 21 October 1999. It invested primarily in residential housing loans secured by first ranking mortgages which had been originated by the NZ Bank. The initial amount invested in the WST Trust was A$311 million and was funded by notes issued by the WST Trust. There have been no subsequent sales of home loans from the NZ Bank to the WST Trust since 1999. The investment balance in the WST Trust as at 30 September 2005 was $64 million (30 September 2004: $82 million).

NOTE 33 **SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS continued**

The HLT was established in 2000 pursuant to a trust deed between BT Funds Management (NZ) Limited (formerly WestpacTrust Investment Management - NZ - Limited) and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the NZ Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand.

In June 2005, a new fund known as the MIF was established pursuant to a trust deed between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited. The MIF was structured to meet the requirements of a Designated Group Investment Fund for the purposes of New Zealand tax law. The purpose of the MIF is to invest in home loans secured by first ranking mortgages, and the MIF can purchase these home loans from the HLT. As at 30 September 2005, the MIF had purchased home loans from the HLT amounting to $108 million (30 September 2004: nil). The investment strategy of the HLT was amended in June 2005 to allow the HLT to be an investor in the units of the MIF. The HLT was the initial investor in the MIF and took units in the MIF in settlement for the sale of an initial pool of home loans. Subsequent to this, the HLT has sold and will continue to sell pools of home loans to the MIF as unit subscriptions are taken out in the MIF by retail investors.

The NZ Banking Group receives fees for various services provided to the WST Trust, HLT and the MIF on an arm's length basis, including servicing fees and management fees. These fees are recognised over the years in which the costs are borne. The NZ Banking Group also provides arm's length interest rate swaps to the WST Trust, HLT and the MIF. WSAL performs certain custodial services, for which it also receives fees.

The notes or units issued by the WST Trust, HLT and the MIF 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 these notes or units except to the limited extent provided in the transaction documents for those programmes through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the notes 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 in the notes or units issued by the WST Trust, HLT or the MIF and neither intend to provide such support.

The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the HLT other than where there is a breach of representation or warranty within 120 days of the initial sale. A purchase of securitised assets held by the MIF may occur if the NZ Bank accepts an offer made by the trustee of the MIF to purchase the assets when the outstanding principal amount of the assets left in the MIF is less than 10% of the initial principal amount of assets sold to the MIF, but the NZ Bank is not required to accept any offer. The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the MIF or the WST Trust.

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:

	2005 $m	2004 $m
Private and priority	**280**	114
Retirement plans	**345**	349
Retail unit trusts	**1,380**	1,599
Wholesale unit trusts	**408**	462
Total funds under management	**2,413**	2,524

The value of assets in retail unit trusts described above includes the assets of HLT and the MIF, but not the WST Trust.

NOTE 33 SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS continued

INVOLVEMENT WITH THE NZ BANKING GROUP

Financial services provided by, and assets purchased from, any member of the NZ Banking Group are on arm's length terms and conditions at fair value.

RISK MANAGEMENT

The NZ Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures will minimise the possibility that those conditions would impact adversely on the NZ Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

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

MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

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

NOTE 34 SEGMENT INFORMATION

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

NOTE 35 INSURANCE BUSINESS

The NZ Banking Group conducts insurance business through one of its subsidiary companies, Westpac Life - NZ - Limited. Its primary insurance activities are the development, underwriting and management of products under life insurance legislation providing insurance cover against the risks of death and disability. It also manages a fire and general insurance agency arrangement as well as underwriting some redundancy and bankruptcy risks. The insurance business comprises less than one percent of the total assets of the NZ Banking Group.

The aggregate amount of the insurance business as at balance date was:

	2005 $m	2004 $m
Total assets	**72**	79

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

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AUDITORS' REPORT

TO THE DIRECTORS OF WESTPAC BANKING CORPORATION

We have audited the financial statements on pages 12 to 64 and the supplementary information contained in the section "Market Risk" on page 7. The financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Branch (the "NZ Bank") and Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") and their financial position as at 30 September 2005. This information is stated in accordance with the accounting policies set out on pages 17 to 26.

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 2005, and contain the supplementary information required by Clauses 12(3), 14A and 14B of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (the "Order"). The supplementary information in the section "Market Risk" on page 7 contains those disclosures required by Clause 12(4) of the Order.

DIRECTORS' RESPONSIBILITIES

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of 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 2005 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.

PRICEWATERHOUSECOOPERS

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 12 to 64:

(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 2005 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 2 November 2005 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland