Westpac Banking Corporation's general disclosure statement

for the year ended 30 September 2006

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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. As at 30 September 2006, the NZ Banking Group included the following subsidiary entities:
  - Westpac New Zealand Group Limited - Holding company
  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited - Holding company
  - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
  - Westpac Equity Investments NZ Limited (Formerly Augusta Equities Limited) - Finance 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 and its jointly owned subsidiary company - Funding entity
  - Tasman Funding No. 2 and its jointly owned subsidiary company - Funding entity
  - Westpac NZ Funding - Funding entity
  - Westpac New Zealand Limited - Non-trading entity
  - Westpac Securities NZ Limited - Non-trading entity
  - Westpac NZ Operations Limited - Holding company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2006.

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 Branch. The NZ Branch'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 275 Kent Street, 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 were:

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

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; Chairman of Westpac General Insurance Limited and Trustee of the Westpac Foundation.

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

Directorships: Chairman of the Australian Bankers' Association and Westpac New Zealand Limited; Director of Westpac General Insurance Limited, JB Davros Pty Limited, Raymor Superannuation Pty Limited, Raymor Investments Pty Limited and JB Glamorgan Pty Limited.

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

Directorships: Director of each of Seven Network Limited and Opera Australia; Member of the Asia Pacific Advisory Board of CVC Capital Partners; Director of Centre for Independent Studies; and Chairman of the Advisory Board of the Caliburn 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

Directorships: Chairman of each of Lend Lease Corporation Limited and the Australian Ballet; Director of each of BHP Billiton Limited, Foster's Group Limited, Australian Ballet Centre Pty Limited, Australian Major Performing Arts Group, Gardiner Hill Pty Limited, Haematite Proprietary Limited, Kaprad Holdings Pty Limited, LLIT Pty Limited, Melpeat Pty Limited and Melbourne Cricket Club Foundation Limited; Deputy Chairman Scotch College, Member of Advisory Board of Allens Arthur Robinson; 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

Directorships: Director of IBT Education Limited, Westpac General Insurance Limited and Westpac New Zealand 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: Yes
Independent Director: Yes

Directorships: Director of AGL Energy Limited; Board and advisory roles with the Royal Humane Society, YWCA NSW, the Australian Charities Fund and patron of 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

Directorships: Director of HAL Holdings Pty Limited and Westpac General Insurance Limited; Chairman of Westpac Staff Superannuation Plan Pty Limited; Trustee of the Westpac Foundation and Member of the Caliburn Partnership and Mallesons Stephen Jaques External Advisory Boards.

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

Directorships: Chairman of Global Equities Market Securities Limited; Director of each of The Colonial Motor Company Limited, Kermadec Property Fund Limited, Westpac New Zealand Limited and Hill Country Corporation Limited; and Member of the New Zealand Exchange Limited Discipline Body (Special Division).

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, SF Fin, FIPAA
Chief Executive Officer, Westpac New Zealand
Country of Residence: New Zealand
Primary Occupation: Chief Executive Officer
Secondary Occupations: None
Directorships: Director of Indigenous Enterprise Partnerships; Visa International Asia Pacific; Salvation Communications Proprietary Limited; Sherry - Hogan Foundation Pty Limited and various New Zealand subsidiaries of the Ultimate Parent Bank and Trustee of Sir Peter Blake Trust.

All communications may be sent to the Directors and the New Zealand Chief Executive Officer/Responsible Person at the head office of the NZ Branch 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 avoided or dealt with. 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 Branch, or any member of the NZ Banking Group:

(a) on terms other than on those that would in the ordinary course of business of the NZ Branch or any member of the NZ Banking Group, be given to any other person of like circumstances and means; 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	**Aa3**
Fitch Ratings	**AA-**

Descriptions of credit rating scales

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

Ratings stated in **bold** indicate 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 Branch'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 Branch's head office, Level 15, 188 Quay Street, Auckland. They are also available, free of charge, within five working days of any request, at any staffed premises of an agency of the NZ Branch primarily engaged in the business of the NZ Branch, or other staffed premises of the NZ Branch, 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					
	2006 NZ IFRS $m	2005 NZ IFRS[1] $m	2005 NZ FRS[2,7] $m	2004 NZ FRS[3,7] $m	2003 NZ FRS[4,5,7] $m	2002 NZ FRS[6,7] $m
Income statement						
Interest income	**3,793**	3,081	2,986	2,596	2,368	2,075
Interest expense	**(2,625)**	(2,019)	(1,892)	(1,499)	(1,335)	(1,160)
Net interest income	**1,168**	1,062	1,094	1,097	1,033	915
Non-interest income	**524**	545	593	591	538	596
Net operating income	**1,692**	1,607	1,687	1,688	1,571	1,511
Operating expenses	**(699)**	(680)	(726)	(731)	(699)	(685)
Impairment losses on loans	**(31)**	(44)	(44)	(39)	(205)	(40)
Profit for the year	**962**	883	917	918	667	786
Income tax expense	**(319)**	(216)	(292)	(297)	(203)	(168)
Profit after income tax expense	**643**	667	625	621	464	618
Profit after attributable to minority interests in subsidiary companies	**(4)**	(5)	(14)	(4)	(2)	(4)
Profit attributable to head office account and equity holders of NZ Banking Group	**639**	662	611	617	462	614
Remittance to the Overseas Bank	**(322)**	(333)	(333)	(350)	-	(200)
Dividends paid or provided for on ordinary share capital	**(150)**	-	-	-	(180)	(150)
Dividends paid or provided for on subordinated capital instruments (net of tax)	**-**	-	-	-	(27)	(41)
Dividends paid or provided for on convertible debentures (net of tax)	**(67)**	(107)	(107)	(138)	(64)	(33)
Dividends paid or provided for on NZ Class shares	**-**	(54)	(54)	(50)	(44)	(44)
Profit retained	**100**	168	117	79	147	146
Balance sheet						
Total assets	**52,136**	45,336	45,050	42,491	39,945	37,458
Total impaired assets	**66**	80	80	58	71	92
Total liabilities	**48,719**	41,370	41,072	38,064	34,920	33,148
Total head office account	**1,307**	1,090				
Total head office account and equity	**3,417**	3,966	3,978	4,427	5,025	4,310

The amounts for the years ended 30 September have been extracted from the audited financial statements of the NZ Banking Group.

Certain comparative figures have been restated to ensure consistent treatment with the current financial year.

1 The NZ Banking Group adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) with effect from 1 October 2005. NZ IFRS data for the year ended 30 September 2005 excludes adjustments arising from financial instruments in NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by the transitional rules and an election was made to exclude these adjustments in the transitional year. The primary adjustments relate to superannuation, cessation of goodwill amortisation and consolidation of special purpose vehicles. A full explanation of the transition to NZ IFRS is provided in Note 46 to the financial statements included in this General Disclosure Statement.

2 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 Branch received $698 million of branch capital from the Overseas Banking Group.

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

4 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.

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

6 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.

7 These numbers have not been prepared under NZ IFRS (NZ IFRS 1 Para 37).

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 by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2006 (30 September 2005 for comparatives).

	As at 30 September 2006 $m	**Peak End-of-Day For the Three Months Ended 30 September 2006 $m**	As at 30 September 2005 $m	Peak End-of-Day For the Three Months Ended 30 September 2005 $m
Aggregate interest rate exposure	**312**	**404**	179	253
As a percentage of the Overseas Banking Group's equity	**1.69%**	**2.19%**	0.95%	1.22%
Aggregate foreign currency exposure	**2**	**7**	3	5
As a percentage of the Overseas Banking Group's equity	**0.01%**	**0.04%**	0.02%	0.03%

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.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Branch 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 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 Branch which as at 30 September 2006 amounted to $ 30,363 million (30 September 2005 $27,664 million).

Section 13A(4) of the Banking Act 1959 (Australia) provides 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. During the year ended 30 September 2006, the Overseas Bank has at all times 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), which has been repealed (see below), previously provided 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 2006, the NZ Branch has at all times held in New Zealand assets (other than goodwill) of not less than the value of the NZ Branch's total deposit liabilities in New Zealand. The Overseas Bank is the 'Continuing Bank' within the meaning of section 23.

Section 23 of the Westpac Banking Corporation Act 1982 was repealed with effect from 1 November 2006 by the Westpac New Zealand Act 2006 (refer to the Local incorporation section below for further information). Following the repeal of section 23:

- New Zealand depositors do not have preferential rights in relation to the New Zealand assets of the Overseas Bank in the event of the winding-up of the Overseas Bank; and
- the requirement for the Overseas Bank to hold assets (other than goodwill) that are not less than the value of the Overseas Bank's deposit liabilities in New Zealand, has been removed.

Pending proceedings or arbitration

There is one legal proceeding pending at the date of this General Disclosure Statement that may have a material adverse effect on the NZ Banking Group or the NZ Branch. Proceedings have been filed by the NZ Branch and members of the NZ Banking Group against the New Zealand Inland Revenue Department (NZIRD) in which the NZ Branch and those NZ Banking Group members are disputing the tax assessments received on 30 September 2004, 31 March 2005 and 30 March 2006 from the NZIRD in relation to its investigation of certain structured finance transactions. A description of the NZIRD investigation and various contingent liabilities of the NZ Banking Group and the NZ Branch is set out in Note 30 to the 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 2006 Annual Financial Report.

Local incorporation

It is a policy of the Reserve Bank of New Zealand ('Reserve Bank') that all systemically important banks must incorporate as a local entity rather than operate through a branch structure. The Reserve Bank allows an overseas bank to operate in New Zealand as both a branch of its overseas parent and through a subsidiary. The Overseas Bank has determined that this type of 'dual registration' is the most effective option for it to comply with the Reserve Bank's policy while minimising disruption to the NZ Branch's investors and customers.

Accordingly, the Overseas Bank has established Westpac New Zealand Limited ('Westpac New Zealand') to assume and carry on the New Zealand consumer and business banking operations of the NZ Branch. Westpac New Zealand commenced operations as a locally incorporated registered bank on 1 November 2006. Pursuant to the Westpac New Zealand Act 2006, designated NZ Branch assets and liabilities vested in Westpac New Zealand on 1 November 2006.

Therefore, from 1 November 2006, the NZ Branch's asset and liability profile was significantly reduced. Also, with the vesting of assets and liabilities relating to consumer and business banking in Westpac New Zealand, the NZ Branch's operations are significantly reduced, largely to wholesale banking and financial markets business, trading as Westpac Institutional Bank.

Detailed information on the effects of local incorporation on the NZ Branch is set out in Note 47 to the financial statements. Further information on Westpac New Zealand is available in Westpac New Zealand Limited's General Disclosure Statement for the period 14 February 2006 to 31 August 2006.

Conditions of registration

The conditions of registration imposed on the NZ Branch, which applied from 2 November 2006, 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 Branch 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 Branch 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.

Conditions of registration (continued)

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.
7. That liabilities of the NZ Branch in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the NZ Branch), do not exceed NZ$10 billion.
8. That the retail deposits of the NZ Branch in New Zealand do not exceed $200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds $250,000.

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.

Further information on the capital adequacy of the Overseas Bank is contained in Note 38 to the financial statements.

Directors' statement

Each Director of the Overseas Bank believes and the Chief Executive Officer, 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 2006:

a. the NZ Branch 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 Branch 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.

Dated this the 2nd day of November 2006.

Financial statements

Contents

Income statements for the year ended 30 September 2006

		NZ Banking Group		NZ Branch	
	Note	**2006 $m**	2005 $m	**2006 $m**	2005 $m
Interest income	3	**3,793**	3,081	**3,674**	3,111
Interest expense	3	**(2,625)**	(2,019)	**(2,613)**	(2,236)
Net interest income		**1,168**	1,062	**1,061**	875
Non-interest income:					
Fees and commissions	4	**372**	439	**370**	440
Wealth management revenue	4	**67**	66	**-**	-
Trading income	4	**80**	28	**79**	28
Gain on ineffective hedges	4	**-**		**-**	
Gain/(loss) from available-for-sale securities	4	**-**		**-**	
Other non-interest income	4	**5**	12	**23**	23
Total non-interest income		**524**	545	**472**	491
Net operating income		**1,692**	1,607	**1,533**	1,366
Operating expenses	5	**(699)**	(680)	**(724)**	(746)
Impairment losses on loans	6	**(31)**	(44)	**(33)**	(44)
Profit before income tax expense		**962**	883	**776**	576
Income tax expense	7	**(319)**	(216)	**(223)**	(129)
Profit after income tax expense		**643**	667	**553**	447
Profit after attributable to minority interests		**(4)**	(5)	**-**	-
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group		**639**	662	**553**	447

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Statements of changes in equity for the year ended 30 September 2006

	NZ Banking Group							
	Head Office Account		NZ Banking Group Equity					
	Branch Capital $m	Retained Profits $m	Share Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Convertible Debentures $m	Minority Interests $m	Total $m
Previously reported balance as at 30 September 2004	-	430	132	635		1,994	1,236	4,427
Effect of transition to NZ IFRS	6	(55)	-	(27)		9	(650)	(717)
Adjusted opening balance as at 1 October 2004	6	375	132	608		2,003	586	3,710
Year ended 30 September 2005								
Profit after income tax expense	-	447	-	215		-	5	667
Total recognised income and expenses for the year ended 30 September 2005	-	447	-	215		-	5	667
Dividends:								
Dividends paid or provided for on convertible debentures (net of tax)	-	(107)	-	-		-	-	(107)
Dividends paid or provided for on NZ Class shares	-	-	-	(54)		-	-	(54)
Branch capital received	698	-	-	-		-	-	698
Share-based payments	4	-	-	-		-	-	4
Redemption of NZ Class shares	-	-	-	(40)		-	(579)	(619)
Remittance to the Overseas Bank	-	(333)	-	-		-	-	(333)
As at 30 September 2005	708	382	132	729		2,003	12	3,966
Adoption of NZ IAS 32/39	-	50	-	3	12	(719)	-	(654)
Adjusted opening balance as at 1 October 2005	708	432	132	732	12	1,284	12	3,312
Year ended 30 September 2006								
Net change in available-for-sale investments (net of tax)	-	-	-	-	-	-	-	-
Change in cash flow hedges	-	-	-	-	**10**	-	-	**10**
Tax effect of change in cash flow hedges	-	-	-	-	**(3)**	-	-	**(3)**
Profit after income tax expense	-	**553**	-	**86**	-	-	**4**	**643**
Total recognised income and expenses for the year ended 30 September 2006	-	**553**	-	**86**	**7**	-	**4**	**650**
Share capital issued	-	-	**1**	-	-	-	-	**1**
Dividends paid or provided for on ordinary shares	-	-	-	**(150)**	-	-	-	**(150)**
Dividends paid or provided for on convertible debentures (net of tax)	-	**(67)**	-	-	-	-	-	**(67)**
Share-based payments	**3**	-	-	-	-	-	-	**3**
Remittance to the Overseas Bank	-	**(322)**	-	-	-	-	-	**(322)**
Other minority interests	-	-	-	-	-	-	**(10)**	**(10)**
As at 30 September 2006	**711**	**596**	**133**	**668**	**19**	**1,284**	**6**	**3,417**

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Statements of changes in equity (continued) for the year ended 30 September 2006

	NZ Branch				
	Head Office Account				
	Branch Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Convertible Debentures $m	Total $m
Previously reported balance as at 30 September 2004	-	430		1,994	2,424
Effect of transition to NZ IFRS	6	(55)		9	(40)
Adjusted opening balance as at 1 October 2004	6	375		2,003	2,384
Year ended 30 September 2005					
Profit after income tax expense	-	447		-	447
Total recognised income and expenses for the year ended 30 September 2005	-	447		-	447
Dividends paid or provided for on convertible debentures (net of tax)	-	(107)		-	(107)
Branch capital received	698	-		-	698
Share-based payments	4	-		-	4
Remittance to the Overseas Bank	-	(333)		-	(333)
As at 30 September 2005	708	382		2,003	3,093
Adoption of NZ IAS 32/39	-	50	12	(719)	(657)
Adjusted opening balance as at 1 October 2005	708	432	12	1,284	2,436
Year ended 30 September 2006					
Net change in available-for-sale investments (net of tax)	-	-	-	-	-
Change in cash flow hedges	-	-	**10**	-	**10**
Tax effect of change in cash flow hedges	-	-	**(3)**	-	**(3)**
Profit after income tax expense	-	**553**	-	-	**553**
Total recognised income and expenses for the year ended 30 September 2006	-	**553**	**7**	-	**560**
Dividends paid or provided for on convertible debentures (net of tax)	-	**(67)**	-	-	**(67)**
Share-based payments	**3**	-	-	-	**3**
Remittance to the Overseas Bank	-	**(322)**	-	-	**(322)**
As at 30 September 2006	**711**	**596**	**19**	**1,284**	**2,610**

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Balance sheets as at 30 September 2006

	Note	NZ Banking Group 2006 $m	NZ Banking Group 2005 $m	NZ Branch 2006 $m	NZ Branch 2005 $m
Assets					
Cash		**248**	305	**246**	305
Due from other financial institutions	9	**1,058**	152	**749**	106
Derivative financial instruments	39	**1,372**	960	**1,372**	960
Other trading securities	10	**2,672**	4,127	**2,671**	4,127
Other financial assets designated at fair value	10	**1,550**		**-**	
Available-for-sale securities	11	**472**		**-**	
Loans	12, 13	**41,791**	37,286	**41,399**	36,795
Life insurance assets		**75**	64	**-**	-
Due from related entities	15	**1,489**	993	**2,383**	1,944
Investments in related entities	15	**-**	-	**-**	1,777
Goodwill and other intangible assets	16	**676**	653	**606**	583
Property, plant and equipment	17	**97**	107	**23**	30
Income tax receivable		**-**	46	**-**	20
Deferred tax assets	18	**95**	143	**83**	133
Other assets	19	**541**	500	**512**	475
Total assets		**52,136**	45,336	**50,044**	47,255
Less:					
Liabilities					
Due to other financial institutions	20	**3,192**	1,745	**1,192**	1,745
Deposits at fair value	21	**4,122**	3,847	**4,122**	3,847
Deposits at amortised cost	21	**26,241**	23,717	**26,241**	23,717
Derivative financial instruments	39	**1,576**	1,153	**1,576**	1,153
Other trading liabilities	22	**139**	345	**139**	345
Debt issues	23	**7,211**	8,553	**-**	100
Current tax liabilities		**24**	-	**35**	-
Deferred tax liabilities	24	**-**	9	**-**	9
Provisions	25	**74**	45	**72**	43
Other liabilities	26	**535**	596	**493**	524
Total liabilities excluding subordinated debentures and due to related entities		**43,114**	40,010	**33,870**	31,483
Subordinated debentures	28	**1,489**	758	**1,489**	758
Total liabilities excluding due to related entities		**44,603**	40,768	**35,359**	32,241
Due to related entities	15	**4,116**	602	**12,075**	11,921
Total liabilities		**48,719**	41,370	**47,434**	44,162
Net assets		**3,417**	3,966	**2,610**	3,093
Represented by:					
Head office account					
Branch capital		**711**	708	**711**	708
Retained profits		**596**	382	**596**	382
Total head office account		**1,307**	1,090	**1,307**	1,090
NZ Banking Group equity					
Ordinary share capital		**133**	132	**-**	-
Retained profits		**668**	729	**-**	-
Cash flow hedge reserve		**19**		**19**	
Convertible debentures	29	**1,284**	2,003	**1,284**	2,003
Total NZ Banking Group equity		**2,104**	2,864	**1,303**	2,003
Minority interests		**6**	12	**-**	-
Total head office account and equity		**3,417**	3,966	**2,610**	3,093

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Statements of cash flows for the year ended 30 September 2006

	NZ Banking Group		NZ Branch	
	2006	2005	**2006**	2005
	$m	$m	**$m**	$m
Cash flows from operating activities				
Interest received	**3,776**	3,095	**3,656**	3,091
Interest paid	**(2,564)**	(1,971)	**(2,571)**	(2,211)
Other non-interest income received	**500**	536	**449**	472
Net (acquisition)/disposal of other trading securities	**1,455**	(1,316)	**1,456**	(1,316)
Net acquisition/(disposal) of other trading liabilities	**(206)**	161	**(206)**	161
Net (acquisition)/disposal of derivative financial instruments	**43**	(506)	**43**	(507)
Operating expenses paid	**(637)**	(658)	**(683)**	(733)
Income tax paid	**(213)**	(122)	**(122)**	(71)
Net cash flows from operating activities	**2,154**	(781)	**2,022**	(1,114)
Cash flows from investing activities				
Net (increase)/decrease in due from other financial institutions - term	**(264)**	479	**-**	67
Net acquisition of other financial assets designated at fair value	**(1,550)**		**-**	
Net acquisition of available-for-sale securities	**(472)**		**-**	
Net loans advanced to customers	**(4,413)**	(1,928)	**(4,518)**	(5,391)
Net (acquisition)/disposal of life insurance assets	**(8)**	6	**-**	-
Net (increase)/decrease in due from related entities	**(371)**	(243)	**(363)**	2,988
Net increase in other assets	**(63)**	(180)	**(58)**	(175)
Purchase of capitalised computer software	**(69)**	(46)	**(69)**	(46)
Purchase of property, plant and equipment	**(22)**	(28)	**(4)**	(13)
Proceeds from disposal of property, plant and equipment	**6**	6	**1**	3
Proceeds from disposal of computer software	**15**	-	**15**	-
Proceeds from disposal of investments in related entities	**-**	-	**1,777**	-
Net cash used in investing activities	**(7,211)**	(1,934)	**(3,219)**	(2,567)
Cash flows from financing activities				
Issue of ordinary share capital	**1**	-	**-**	-
Purchase of NZ Class shares - Treasury Stock	**-**	(1)	**-**	-
Redemption of NZ Class shares	**-**	(618)	**-**	-
Branch capital received	**-**	698	**-**	698
Net increase/(decrease) in due to other financial institutions - term	**480**	629	**(1,520)**	629
Net increase in deposits	**2,799**	2,244	**2,799**	2,244
Net proceeds from debt issues/(redemptions)	**(1,361)**	592	**(89)**	(100)
Net increase/(decrease) in due to related entities	**3,370**	(196)	**60**	724
Net decrease in other liabilities	**(83)**	(108)	**(65)**	(43)
Payment of dividends on convertible debentures	**(49)**	(159)	**(49)**	(159)
Payment of dividends on NZ Class shares	**-**	(54)	**-**	-
Payment of dividends on ordinary shares	**(150)**	-	**-**	-
Remittance to the Overseas Bank	**(322)**	(333)	**(322)**	(333)
Other minority interests	**(10)**	-	**-**	-
Net cash provided by financing activities	**4,675**	2,694	**814**	3,660

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Statements of cash flows (continued) for the year ended 30 September 2006

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Net (decrease)/increase in cash and cash equivalents	**(382)**	(21)	**(383)**	(21)
Cash and cash equivalents at beginning of the year	**187**	208	**186**	207
Cash and cash equivalents at end of the year	**(195)**	187	**(197)**	186
Cash and cash equivalents comprise				
Cash	**248**	305	**246**	305
Due from other financial institutions - at call	**749**	107	**749**	106
Due to other financial institutions - at call	**(1,192)**	(225)	**(1,192)**	(225)
Cash and cash equivalents at end of the year	**(195)**	187	**(197)**	186
Reconciliation of profit after income tax expense to net cash flows from operating activities				
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	**639**	662	**553**	447
Adjustments:				
Amortisation of intangible assets	**31**	39	**31**	39
Impairment losses on loans	**31**	44	**33**	44
Depreciation/amortisation	**28**	29	**10**	10
Loss on sale of property, plant and equipment	**(2)**	(1)	**-**	-
Share-based payments	**3**	4	**3**	4
Intragroup minority interests in subsidiary companies	**4**	5	**-**	-
Movement in accrued assets	**(42)**	7	**(43)**	(36)
Movement in accrued liabilities	**65**	(3)	**47**	(19)
Movement in income tax provisions	**71**	42	**61**	7
Tax on convertible debentures dividends	**31**	52	**31**	52
Net acquisition/(disposal) of other trading securities	**1,455**	(1,316)	**1,456**	(1,316)
Net acquisition of other trading liabilities	**(206)**	161	**(206)**	161
Net acquisition/(disposal) of derivative financial instruments	**46**	(506)	**46**	(507)
Net cash flows from operating activities	**2,154**	(781)	**2,022**	(1,114)

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers for this year are not comparable to prior years. Refer to Note 46 for an explanation of the changes.

Notes to the financial statements

Note 1 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, applicable New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements are the first annual financial statements to be prepared by the NZ Banking Group and the NZ Branch in accordance with NZ IFRS. Reconciliations and descriptions of the impact of the transition from previous New Zealand Generally Accepted Accounting Practice (NZ GAAP) to NZ IFRS on the NZ Banking Group's reported balance sheet, income statement and statement of cash flows are provided in Note 46.

Compliance with NZ IFRS ensures that the financial report, comprising the financial statements and accompanying notes of the NZ Banking Group and the NZ Branch comply with International Financial Reporting Standards.

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 Branch**') – refers to the New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

These financial statements were authorised for issue by the Board of Directors on 2nd November 2006.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand currency unless otherwise stated.

NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The NZ Banking Group has made the following elections in accordance with NZ IFRS 1:

- not to apply NZ IFRS 3 *Business Combinations* retrospectively to any past business combinations (business combinations that occurred before the date of transition to NZ IFRS);
- to recognise all cumulative superannuation plan actuarial gains and losses at the date of transition to NZ IFRS and to use the 'corridor' approach for later actuarial gains and losses;
- to apply NZ IFRS 2 *Share-based Payment* retrospectively for all options and performance share rights not yet vested as at the date of transition to NZ IFRS, even if granted on or before 7 November 2002; and
- not to apply NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* for comparative information.

The accounting policies have been consistently applied by the NZ Banking Group for all the financial years presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 October 2004 for the purpose of transition to NZ IFRS, except for the adoption of NZ IAS 32 and NZ IAS 39. The NZ Banking Group has continued to apply previous NZ GAAP in the comparative information to financial instruments within the scope of these standards. The date of transition to NZ IAS 32 and NZ IAS 39 was 1 October 2005. The nature of the changes in accounting policies that would make the information comply with these standards is disclosed in Note 46.

Note 1 Statement of accounting policies (continued)

Basis of aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Branch, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited and the consolidated capital and reserves of Westpac New Zealand Group Limited, Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1, Tasman Funding No. 2, Westpac NZ Funding 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.

Foreign currency

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

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the NZ Banking Group have been included in the income statement in profit.

Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments, measured at amortised cost, or those classified as available-for-sale securities is recognised in the income statement using the effective interest method. Interest income for instruments measured at fair value through profit and loss is recognised using the yield to maturity method, based on the actual yield applicable at the time of acquisition.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, cash flows are estimated based upon contractual terms and behavioural aspects of the financial instrument (e.g. prepayment options) but do not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loan's original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis over the year during which the service is performed. All fees related to the successful origination or settlement of a loan (together with the related direct costs) are deferred and are recognised as an adjustment to the effective interest rate on the loan. Asset management fees relating to investment funds are recognised over the year the service is provided.

Trading income

Trading income includes realised and unrealised gains and losses from trading assets and trading liabilities (including all derivatives except those that are designated as effective hedging instruments) and financial assets and financial liabilities designated at inception as fair value through profit or loss.

Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised as non-interest income.

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method. Interest expense relating to instruments classified as fair value through profit or loss, including trading liabilities, is recognised on a yield to maturity basis.

Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recognised as liabilities and are amortised as a reduction of rental expense over the lease term, on a straight-line basis.

Commissions and other fees

External commissions and other costs paid to acquire mortgage loans through brokers are capitalised and amortised using the effective interest method. All other fees and commissions are recognised in the income statement over the year which the related service is consumed.

Note 1 Statement of accounting policies (continued)

Share-based compensation – options and performance share rights

Certain employees hold options and performance share rights granted by the Overseas Bank.

The fair value of options and performance share rights provided to employees as share-based compensation is recognised as an expense with a corresponding increase in branch capital. The fair value is measured at grant date and is recognised over the expected vesting year during which the employees would become entitled to exercise the option or performance share right.

The fair value of options and performance share rights is estimated at grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and performance hurdle features of the grants. The fair value of the options and performance share rights excludes the impact of any non-market vesting conditions such as participants continued employment by the NZ Banking Group. The non-market vesting conditions are included in assumptions used when determining the number of options and performance share rights expected to become exercisable for which an expense is recognised. As at each balance date these assumptions are revised and the expense recognised each year takes into account the most recent estimates.

Taxation

Income tax

Income tax expense on the profit for the year comprises current tax and movements in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the year, using tax rates that have been enacted or substantively enacted as at balance date, and any adjustment to tax payable in respect of previous years.

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

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

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

Goods and services tax

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

Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the NZ Banking Group's share of the identifiable net assets acquired is recorded as goodwill.

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

Assets

Financial assets

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified in this category if acquired or incurred principally for selling it in the near term, if it is part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management.

This designation may only be made if the financial asset either contains an embedded derivative, or it will be managed on a fair value basis in accordance with a documented risk management strategy or designating it at fair value will reduce an accounting mismatch.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the NZ Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Note 1 Statement of accounting policies (continued)

Available-for-sale

Available-for-sale financial securities are those non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, or loans.

Recognition of financial assets

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

Available-for-sale financial assets and financial assets through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

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

Cash and balances with central banks

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

Due from other financial institutions

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

Derivative financial instruments

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

Other financial assets designated at fair value

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

Other trading securities

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

Available-for-sale securities

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

Loans

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. Refer above for accounting treatment of loans.

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

Impairment of financial assets

Impaired financial assets include:

- restructured assets, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer; and
- real estate or other assets acquired through security enforcement or where the 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'.

Note 1 Statement of accounting policies (continued)

Assets carried at amortised cost

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

i. significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and are directionally consistent with changes in related observable data from year to year (e.g. changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the NZ Banking Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in the income statement. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Assets carried at fair value

The NZ Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent year, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Investments in related entities

Investments in related entities are initially recorded by the NZ Banking Group in the balance sheet at cost. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Investments in related entities are written-down to recoverable amount where appropriate.

Note 1 Statement of accounting policies (continued)

Life insurance assets

Assets held by the life insurance company, including investments in funds managed by the NZ Banking Group, are initially recorded at cost and then adjusted to net market value as at each balance date. Net market value adjustments are included in the income statement. The company's assets comprise the life insurance fund and can only be used within the restrictions imposed under the Life Insurance Act 1908. The main restriction is that the assets in the fund can only be used to meet the liabilities and expenses of the life insurance business of the company or as distributions when solvency requirements are met, and cannot be used to support any other business of the company.

Goodwill and other intangible assets

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

In respect of acquisitions prior to 1 October 2004, goodwill is recorded at deemed cost, which represents the amount recorded under previous NZ GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 October 2004 has not been reconsidered in preparing the opening NZ IFRS balance sheet as at 1 October 2004.

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

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

Goodwill was tested for impairment as at 30 September 2006.

Other intangibles are stated at cost less accumulated amortisation and impairment losses. Other intangible assets comprise acquired and internally developed computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the NZ Banking Group. These costs are amortised using the straight-line method to allocate the cost of the asset less any residual value over the estimated useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment losses are recognised as a non-interest expense in the income statement.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives, as follows:

- Leasehold improvements Up to 10 years
- Furniture and equipment 3 - 15 years

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying value and are included in the income statement.

Impairment of non-financial assets

The carrying amount of the NZ Banking Group's non-financial assets, other than deferred tax assets and assets arising from employee benefits, are reviewed as at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. With the exception of goodwill for which impairment losses are generally not reversed, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment losses and reversals of impairment losses are recognised in the income statement.

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

Liabilities

Financial liabilities

Financial liabilities are measured at amortised cost, except for derivatives and deposits at fair value, which are held at fair value through profit or loss.

Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are measured at amortised cost.

Note 1 Statement of accounting policies (continued)

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

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

Other trading liabilities and other financial liabilities at fair value

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

Debt issues

These are bonds, notes and commercial paper that have been issued by the NZ Banking Group. They are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Debt issues are subsequently measured at amortised cost using the effective interest method to amortise cost at inception to the redemption value over the expected life of the debt.

Life insurance policy liabilities

Life insurance contract liabilities are calculated by using the margin on service methodology. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released over each financial year in line with the service that has been provided. The balance of the planned profit is deferred by including them in the value of policy liabilities.

Subordinated debentures

These are Fixed Interest Resettable Trust Securities (FIRsTS) and junior subordinated debentures that have been issued by the NZ Banking Group. They are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method to amortise cost at inception to the redemption value over the expected life of the debt.

Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other provisions in respect of employees' services and are measured at the amounts expected to be paid when the liabilities are settled.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of expected future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using market yields at the reporting date on government bonds with terms that match as closely as possible the estimated timing of future cash flows.

Superannuation obligations

Obligations for contributions to the defined contribution superannuation scheme are recognised as an expense in the income statement as incurred.

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation at the reporting date less the fair value at the reporting date of the scheme's assets as adjusted for unrecognised past service costs. The carrying amount of an asset or liability recognised in respect of the defined benefit superannuation scheme is restricted to the total of any unrecognised past service cost and the present value of available refunds from the scheme and reductions in future contributions to the scheme. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of New Zealand Government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The cost recognised in the income statement in respect of the defined benefit superannuation scheme comprises the current service cost, an interest cost and an expected return on the scheme's assets. In addition, actuarial gains or losses which result from annual actuarial valuations, which exceed 10% of the greater of the present value of the defined benefit scheme's obligations or the market value of the defined benefit scheme assets, are spread on a straight-line basis over the expected remaining service period of members of the respective schemes.

Note 1 Statement of accounting policies (continued)

Termination benefits

Liabilities for termination benefits, not in connection with a business combination, are recognised when a detailed plan for the terminations has been developed (and is without realistic possibility of withdrawal) and a valid expectation has been raised in those employees affected that the terminations will be carried out. Liabilities for termination benefits are recognised within other creditors unless the timing or amount is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits relating to a business combination are recognised as at the date of acquisition if, at or before the acquisition date, the main features of the terminations were planned and a valid expectation has been raised in those employees affected that the termination would be carried out and this is supported by a detailed plan. These liabilities are disclosed in aggregate with other restructuring costs arising as a consequence of the acquisition.

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

Provisions

Provision for restructuring

A provision for restructuring on acquisition is recognised where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated.

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

Head office account and equity

Ordinary shares

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

Head office account – Branch capital

Branch capital comprises funds provided by the Overseas Bank and the amounts recognised as share-based compensation in respect of options and performance share rights granted by the Overseas Bank to employees of the NZ Branch. It is non-interest bearing and there is no fixed date for repatriation.

Convertible debentures

Convertible debentures are recognised in the balance sheet at the amount of consideration received, net of issue costs.

Reserves

Available-for-sale securities reserve

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

Cash flow hedge reserve

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

Hedging

The NZ Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss of derivatives depends on the nature of the hedging relationship. Hedging relationships are of two types:

- fair value hedge: a hedge of the change in fair value of recognised assets or liabilities or firm commitments; and
- cash flow hedge: a hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction.

The NZ Banking Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the NZ Banking Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The NZ Banking Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

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

Fair value hedge

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

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

Note 1 Statement of accounting policies (continued)

Cash flow hedge

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

Amounts accumulated in equity are recycled to the income statement in the years in which the hedged item affects profit or loss (e.g. when the forecast transaction takes place).

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

Embedded derivatives

In certain instances a derivative may be embedded in a 'host contract'. If the host contract is not carried at fair value with changes in fair value reported in the income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Loan securitisation

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

Funds management and trust activities

Certain controlled entities within the NZ Banking Group conduct investment management and other fiduciary activities as trustee, custodian or manager on behalf of individuals, trusts, retirement benefit schemes and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where controlled entities, as trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee, who reports the assets in its balance sheet. In contrast, an operating lease exists where the leased assets are allocated to the lessor.

In its capacity as a lessor, the NZ Banking Group primarily offers finance leases. The NZ Banking Group recognises the assets held under finance lease in the balance sheet as receivables at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic return on the NZ Banking Group's net investment in the finance lease. Finance lease income is included within net interest income in the income statement.

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

Offsetting

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

Segment reporting

A segment is a distinguishable component of the NZ Banking Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), that is subject to risks and returns of other business or geographical segments.

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Cash Flow Statements* with netting of certain items as disclosed below.

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the NZ Banking Group, which are readily convertible at the investor's or customer's option and include the inter-bank balances arising from the daily Reserve Bank of New Zealand settlement process.

Netting of cash flows

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

Note 2 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.

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 Directors of the Overseas Bank (the Board) and implemented through the Chief Executive Officer for New Zealand (NZ CEO) and the executive management team.

The Overseas Bank has a Board Audit Committee (BAC) and a Board Risk Management Committee (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 compliance framework. Risk Management and Corporate Affairs are responsible for the coordination of the response to key regulatory development 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.

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.

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 the General Manager Risk Management. The results of this process are reported to the New Zealand Operational Risk & Compliance Committee, chaired by the NZ CEO, a member of the Group Executive of the Overseas Bank. The NZ CEO then provides management assurance to the BRMC, the BAC and the Chief Executive Officer of the Overseas Bank.

This system of management assurance assists 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.

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, non-trading, 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.

Note 2 Risk management (continued)

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 Group 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.

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.

Market risk

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

- 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 activity and credit spreads;
- commodity price risk results from exposures to changes in spot prices, forward prices and volatilities of commodities; and
- 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 Trading 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 the NZ Banking Group's trading positions due to adverse market movements over a defined time horizon with a specified confidence interval. The NZ Banking Group 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 or 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.

Note 2 Risk management (continued)

Non-trading risk

Management of structural interest rate risk

The Institutional Bank's New Zealand Treasury Unit (Treasury) 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. Treasury'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 Branch's Asset and Liability Committee (NZ ALCO) and the oversight of the Overseas Banking Group's Market Risk Management unit, Group Treasury 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.

A simulation model is used to calculate the potential net interest income at risk. The net interest income simulation framework combines underlying balance sheet data with:

- 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. Treasury administers liquidity management in New Zealand. Group Treasury is responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

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

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

Group MARCO and the Group Risk Reward Committee (GRRC) review the Overseas Banking Group liquidity management approach 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.

Note 2 Risk management (continued)

Annual funding plan

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

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

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

Contingency planning

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

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

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

Group 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 2006, the NZ Banking Group held liquid assets of $2,768 million (30 September 2005 $3,404 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.

Compliance risk

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

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

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

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

Note 2 Risk management (continued)

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 New Zealand 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 of six non-executive and independent Directors of the Overseas Bank. The Committee assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, the activities of the Overseas Banking Group's internal and external auditors, as well as monitoring the relationship between management and the external auditors.

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

Reviews in respect of risk management systems

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

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

The Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit decision-making relating to products provided in New Zealand.

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

Note 3 Net interest income

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Interest income				
Loans	**3,301**	2,597	**3,250**	2,610
Deposits with other financial institutions	**43**	33	**40**	20
Available-for-sale securities	**29**		**-**	
Impaired assets	**9**	9	**9**	9
Dividends on redeemable preference share finance	**-**	187	**-**	-
Related entities	**1**	19	**62**	236
Other	**35**	32	**40**	32
Total interest income recognised using the effective interest method	**3,418**	2,877	**3,401**	2,907
Trading securities	**274**	204	**273**	204
Other financial assets designated at fair value	**101**		**-**	
Total interest income	**3,793**	3,081	**3,674**	3,111
Interest expense				
Current and term deposits	**1,688**	1,414	**1,688**	1,414
Deposits from other financial institutions	**182**	68	**69**	68
Debt issues	**446**	317	**-**	7
Related entities	**23**	1	**574**	543
Subordinated debentures	**105**	39	**105**	39
Other	**31**	33	**27**	18
Total interest expense recognised using the effective interest method	**2,475**	1,872	**2,463**	2,089
Trading liabilities	**150**	147	**150**	147
Other financial liabilities designated at fair value	**-**		**-**	
Total interest expense	**2,625**	2,019	**2,613**	2,236
Net interest income	**1,168**	1,062	**1,061**	875

The NZ Banking Group had loans and deposits that were subject to set-off agreements as disclosed in Note 12 for 30 September 2005, but no such arrangement exists for 30 September 2006. For the year ended 30 September 2006, no interest income (30 September 2005 $233 million) and no interest expense (30 September 2005 $93 million) has been set off. This resulted in no net interest income (30 September 2005 $140 million) being included in interest income from loans. There is no set-off amount in the NZ Branch.

Note 4 Non-interest income

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Fees and commissions				
Lending fees (loan and risk)	**90**	111	**89**	111
Transaction fees and commissions received	**269**	279	**262**	274
Management fees received from related entities	**-**	-	**5**	6
Other non-risk fee income	**13**	49	**14**	49
Total fees and commissions	**372**	439	**370**	440
Wealth management operating income				
Wealth management revenue	**95**	86	**-**	-
Net life insurance income and change in policy liabilities	**(28)**	(20)	**-**	-
Total wealth management operating income	**67**	66	**-**	-
Trading income				
Foreign exchange	**55**	49	**55**	49
Other trading	**25**	(21)	**24**	(21)
Total trading income	**80**	28	**79**	28
Gain on ineffective hedges	**-**		**-**	
Gain/(loss) from available-for-sale securities	**-**		**-**	
Other non-interest income				
Dividend income	**-**	1	**-**	-
Rental income	**1**	2	**-**	-
Loss on disposal of property, plant and equipment	**(2)**	(1)	**-**	-
General insurance commissions and premiums earned (net of claims)	**2**	5	**24**	24
Other	**4**	5	**(1)**	(1)
Total other non-interest income	**5**	12	**23**	23
Total non-interest income	**524**	545	**472**	491

Note 5 Operating expenses

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Salaries and other staff expenses				
Salaries and wages	**308**	287	**302**	280
Employee entitlements	**11**	10	**11**	10
Superannuation costs:				
Defined contribution scheme (refer to Note 41)	**20**	18	**20**	18
Defined benefit scheme (refer to Note 41)	**(1)**	-	**(1)**	-
Share-based payments	**3**	4	**3**	4
Restructuring costs	**4**	2	**4**	2
Other	**6**	6	**7**	6
Total salaries and other staff expenses	**351**	327	**346**	320
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities	**-**	-	**63**	80
Other	**46**	45	**9**	9
Depreciation:				
Leasehold improvements	**11**	12	**-**	-
Furniture and equipment	**17**	17	**10**	10
Equipment repairs and maintenance	**8**	7	**5**	4
Electricity, water and rates	**2**	3	**-**	-
Other	**7**	5	**1**	-
Total equipment and occupancy expenses	**91**	89	**88**	103
Other expenses				
Software amortisation costs	**31**	39	**31**	39
Non-lending losses	**9**	7	**9**	4
Consultancy fees and other professional services	**50**	39	**41**	30
Auditors' remuneration (refer to Note 42)	**2**	1	**1**	1
Stationery	**15**	16	**14**	15
Postage and freight	**16**	16	**16**	16
Telecommunication costs	**13**	10	**13**	10
Insurance	**1**	1	**-**	-
Advertising	**24**	22	**23**	21
Training	**5**	5	**5**	5
Travel	**11**	8	**11**	8
Outsourcing	**60**	73	**60**	72
Related entities	**12**	13	**56**	88
Other	**8**	14	**10**	14
Total other expenses	**257**	264	**290**	323
Total operating expenses	**699**	680	**724**	746

The NZ Banking Group made donations of $0.25 million, (2005: $0.24 million) during the year ended 30 September 2006.

Note 6 Impairment losses on loans

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Individually assessed provisions	**17**	22	**17**	22
Individually assessed provisions no longer required	**(19)**	(9)	**(19)**	(9)
Collectively impaired provision	**45**	12	**44**	15
Write-offs direct	**2**	35	**2**	30
Recoveries	**(3)**	(16)	**-**	(14)
Interest adjustments	**(11)**		**(11)**	
Total impairment losses on loans	**31**	44	**33**	44

Note 7 Income tax expense

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Income tax expense				
Current tax	**323**	168	**226**	126
Deferred tax (refer to Notes 18 and 24)				
Current year	**(11)**	48	**(10)**	3
Prior year	**7**	-	**7**	-
Total income tax expense	**319**	216	**223**	129
Profit before income tax expense	**962**	883	**776**	576
Tax calculated at tax rate of 33 percent	**317**	291	**256**	190
Exempt dividends	**-**	(62)	**-**	-
Income not subject to tax	**(9)**	(5)	**(3)**	-
Expenses not deductible for tax purposes	**6**	-	**6**	-
Other items	**5**	(8)	**(36)**	(61)
Total income tax expense	**319**	216	**223**	129

The balance of the dividend withholding payment account as at 30 September 2006 was nil (30 September 2005 nil) and there was no movement during the year ended 30 September 2006 (30 September 2005 nil).

Note 8 Imputation credit account

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Balance at beginning of the year	**313**	120	**119**	41
Transfers	**-**	-	**(7)**	-
Imputation credits attached to dividends received during the year	**-**	5	**-**	-
Imputation credits attached to dividends paid during the year	**(50)**	(29)	**-**	-
Income tax payments during the year	**217**	217	**96**	78
Balance at end of the year	**480**	313	**208**	119

Note 9 Due from other financial institutions

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Loans and advances to other banks	**784**	150	**749**	105
Other	**274**	2	**-**	1
Total due from other financial institutions	**1,058**	152	**749**	106
Due from other financial institutions comprises of:				
At call	**749**	107	**749**	106
Term	**309**	45	**-**	-
Total due from other financial institutions	**1,058**	152	**749**	106

Note 10 Other trading securities and other financial assets designated at fair value

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Other trading assets				
Trading securities	**2,339**	3,558	**2,339**	3,558
Securities purchased under agreement to resell	**333**	569	**332**	569
Total other trading securities	**2,672**	4,127	**2,671**	4,127
Other financial securities at fair value	**1,550**		**-**	
Total other trading securities and other financial assets designated at fair value	**4,222**	4,127	**2,671**	4,127
Trading securities				
Listed				
NZ Government securities	**334**	1,038	**334**	1,038
NZ corporate securities	**82**	86	**82**	86
Other	**7**	-	**7**	-
Total listed trading securities	**423**	1,124	**423**	1,124
Unlisted				
NZ Government securities	**7**	1	**7**	1
NZ corporate securities:				
Certificates of deposit	**1,641**	2,032	**1,641**	2,032
Corporate bonds	**-**	7	**-**	7
Commercial paper	**266**	383	**266**	383
Mortgage backed securities	**2**	11	**2**	11
Total unlisted trading securities	**1,916**	2,434	**1,916**	2,434
Total trading securities	**2,339**	3,558	**2,339**	3,558

Note 11 Available-for-sale securities

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Listed securities				
NZ corporate securities	**472**		-	
Total available-for-sale securities	**472**		-	

As at 30 September 2006, available-for-sale securities in the amount of $472 million were pledged as collateral for group liabilities.

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

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Balance at beginning of the year	-		-	
Additions	**472**		-	
Disposals (sale and redemption)	-		-	
Gains and losses from changes in fair value	-		-	
Balance at end of the year	**472**		-	

Note 12 Loans

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Overdrafts	**1,350**	1,166	**1,350**	1,166
Credit card outstandings	**1,009**	978	**940**	907
Overnight and at call money market loans	**1,687**	1,552	**1,687**	1,552
Term loans:				
Housing	**24,493**	21,508	**24,349**	21,214
Non-housing	**12,725**	11,537	**12,545**	11,407
Other	**682**	846	**681**	846
Total gross loans	**41,946**	37,587	**41,552**	37,092
Provisions for impairment losses on loans	**(155)**	(301)	**(153)**	(297)
Total net loans	**41,791**	37,286	**41,399**	36,795

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

Note 13 Impaired assets

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Gross individually impaired assets	**66**	80	**66**	80
Individually assessed provisions	**(14)**	(20)	**(14)**	(20)
Net individually impaired assets	**52**	60	**52**	60
Gross individually impaired assets				
Balance at beginning of the year	**80**	58	**80**	55
Additions	**105**	87	**105**	87
Amounts written off	**(6)**	(3)	**(6)**	(3)
Returned to performing or repaid	**(113)**	(62)	**(113)**	(59)
Balance at end of the year excluding restructured assets	**66**	80	**66**	80
Restructured assets				
Balance at beginning of the year	**-**	-	**-**	-
Additions	**-**	1	**-**	1
Returned to performing or repaid	**-**	(1)	**-**	(1)
Balance at end of the year	**-**	-	**-**	-
Total gross individually impaired assets	**66**	80	**66**	80
Interest forgone for the year on the above impaired assets	**2**	2	**2**	2
Individually assessed provisions				
Balance at beginning of the year	**20**	8	**20**	8
Adoption of NZ IAS 32/39	**(2)**		**(2)**	
Impairment losses on loans	**17**	22	**17**	22
Individually assessed provisions no longer required	**(19)**	(9)	**(19)**	(9)
Impairment losses on loans written off	**(4)**	(1)	**(4)**	(1)
Interest adjustments	**2**		**2**	
Balance at end of the year	**14**	20	**14**	20
Collectively impaired provision (previously called general provision)				
Balance at beginning of the year	**281**	269	**277**	262
Adoption of NZ IAS 32/39	**(138)**		**(137)**	
Impairment losses on loans	**18**	12	**18**	15
Balance at end of the year	**161**	281	**158**	277
Total impairment provisions	**175**	301	**172**	297
Provisions for impairment losses on loans	**155**	301	**153**	297
Provisions for impairment losses on off-balance sheet credit exposures	**20**		**19**	
Total impairment provisions	**175**	301	**172**	297
Past due assets[2]				
Balance at beginning of the year	**37**	31	**31**	24
Additions	**72**	37	**67**	33
Deletions	**(75)**	(31)	**(70)**	(26)
Balance at end of the year	**34**	37	**28**	31
Interest forgone for the year on the above past due assets	**-**	-	**-**	-
Other assets under administration[2]				
Balance at beginning of the year	**16**	56	**16**	56
Additions	**2**	16	**2**	16
Deletions	**(15)**	(56)	**(15)**	(56)
Balance at end of the year	**3**	16	**3**	16
Interest income accrued on impaired assets[1]	**9**	9	**9**	9

[1] Interest income accrued on impaired assets is included within interest income for the year.
[2] Past due assets and Other assets under administration are not impaired assets.

There are no unrecognised impaired assets as at 30 September 2006 (30 September 2005 nil).
The NZ Banking Group does not have any real estate or other assets acquired through security enforcement.

Note 14 Interest earning assets and interest bearing liabilities

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Interest earning and discount bearing assets	**47,416**	41,911	**45,835**	42,285
Interest and discount bearing liabilities	**42,948**	36,769	**41,531**	39,530

Note 15 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, Tasman Funding No. 2 and their jointly owned subsidiary Pacific Funding, Westpac NZ Funding, BT Financial Group (NZ) Limited and its subsidiary BT Funds Management (NZ) Limited (funds management company), Westpac Group Investment - NZ - Limited, Westpac Financial Services Group - NZ - Limited and its subsidiaries and Westpac New Zealand Group 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	
Westpac Equity Investments NZ Limited (Formerly 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	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac Capital - NZ - Limited	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
Sfaka Investments Limited	*Finance company, amalgamated with parent 9 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 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[1]	*Finance partnership, sold 19 May 2005*	*Formerly 76 percent owned*
Calstock Partners[1]	*Finance partnership, sold 19 May 2005*	*Formerly 67 percent owned*
NZA Overseas Funding[1]	*Finance partnership, sold 19 May 2005*	*Formerly 76 percent owned*
Willowemoc Partners[1]	*Finance partnership, sold 19 May 2005*	*Formerly 67 percent owned*
Westpac Overseas Investments Limited	Finance company	
Hudson Loft Finance LLC[1]	*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*	

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

Note 15 Related entities (continued)

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

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

The subsidiaries of Westpac New Zealand Group Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac New Zealand Limited	Registered bank, incorporated 14 February 2006	Formerly owned by Westpac - Holdings - NZ Limited
Westpac NZ Operations Limited	Holding company, incorporated 29 August 2006	
Westpac Securities NZ Limited	Funding company, incorporated 29 August 2006	

Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets, which were not consolidated under previous NZ GAAP:

- Waratah Receivables Corp NZ Limited;
- Waratah Securities Australia Limited (NZ Branch);
- WST - NZ Series 1999 - 1E Trust;
- WST - NZ Warehouse Trust #1; and
- WST - NZ Series WLIS #6 Trust.

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 and Waratah Securities Australia Limited which is incorporated in Australia.

Tasman Funding No. 1 and Tasman Funding No. 2, wholly owned subsidiaries of a member of the Overseas Banking Group, were incorporated on 15 August 2005. Pacific Funding, a jointly owned subsidiary of Tasman Funding No. 1 and Tasman Funding No. 2 was incorporated on 1 November 2005. Westpac NZ Funding, a wholly owned subsidiary of a member of the Overseas Banking Group, was incorporated on 28 October 2005.

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

- Cards NZ Limited (formerly 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.

Amalgamations and disposals of related entities

On 29 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 income statement.

On 27 September 2005, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold one of its subsidiaries, Bag Inns Two Limited for $28 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 27 July 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. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 31 May 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 income statement.

On 19 May 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 income statement.

Note 15 Related entities (continued)

On 18 April 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 income statement.

Nature of transactions

Loan finance and current account banking facilities are provided by the NZ Branch 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 Branch.

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

The NZ Branch pays subvention payments to the members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Branch for the year ended 30 September 2006 was $45 million (30 September 2005 $75 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 Branch on behalf of other members of the NZ Banking Group. The NZ Branch receives commission from these sales. Commission received for the year ended 30 September 2006 was $22 million (30 September 2005 $21 million).

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Branch. Management fees paid for the year ended 30 September 2006 were $5 million (30 September 2005 $6 million). Rental income is paid by the NZ Branch to Westpac (NZ) Investments Limited. The total charge for the year ended 30 September 2006 was $64 million (30 September 2005 $81 million).

A member of the NZ Banking Group provides funding to the NZ Branch. Management fees are paid by the NZ Branch for these services. Management fees paid for the year ended 30 September 2006 were $2 million (30 September 2005 $0.5 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 debt issues issued by the NZ Banking Group, other than, from 1 November 2006, the obligations of Westpac New Zealand Limited and all its subsidiaries. In particular, the Overseas Bank does not guarantee the debt issues of Westpac Securities NZ Limited, which are guaranteed by Westpac New Zealand Limited only.

Westpac Securitisation Administration Limited provides custodial services on behalf of the Westpac Home Loan Trust and the Westpac Mortgage Investment Fund for which it receives fees.

Derivative 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, Westpac Holdings - NZ - Limited had issued redeemable preference shares of $1,777 million to the NZ Branch. These were classified as an investment in related entities on the NZ Branch's balance sheet. Dividends were discretionary and were treated as dividends received in the NZ Branch's income statement. These redeemable preference shares were not entitled to exercise any voting rights except where the dividend payable was in arrears in which case they bore the same voting rights as ordinary shares. These redeemable preference shares were redeemed by Westpac Holdings - NZ - Limited on 20 December 2005. Redemption proceeds closely approximated the carrying value so there was no material effect on the NZ Branch's balance sheet.

On 21 June 2006, the Overseas Bank transferred to the NZ Branch AUD 762.7 million being the proceeds raised from the issue of Notes as part of the Overseas Bank Trust Preferred Securities Tier 1 capital raising completed on 21 June 2006. The proceeds received are recorded net of issue costs paid by the NZ Branch.

Note 16 Goodwill and other intangible assets

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Goodwill				
Cost	**547**	547	**477**	477
Accumulated impairment losses	**-**	-	**-**	-
Net carrying amount of goodwill	**547**	547	**477**	477
Computer software				
Cost	**326**	272	**326**	272
Accumulated amortisation and impairment losses	**(197)**	(166)	**(197)**	(166)
Net carrying amount of computer software	**129**	106	**129**	106
Total goodwill and other intangible assets	**676**	653	**606**	583

Note 16 Goodwill and other intangible assets (continued)

	NZ Banking Group			NZ Branch		
	Goodwill $m	Computer Software $m	Total $m	Goodwill $m	Computer Software $m	Total $m
Balance as at 1 October 2005	**547**	**106**	**653**	**477**	**106**	**583**
Additions	**-**	**69**	**69**	**-**	**69**	**69**
Disposals	**-**	**(15)**	**(15)**	**-**	**(15)**	**(15)**
Amortisation	**-**	**(31)**	**(31)**	**-**	**(31)**	**(31)**
Net carrying amount as at 30 September 2006	**547**	**129**	**676**	**477**	**129**	**606**
Balance as at 1 October 2004	547	99	646	477	99	576
Additions	-	46	46	-	46	46
Disposals	-	-	-	-	-	-
Amortisation	-	(39)	(39)	-	(39)	(39)
Net carrying amount as at 30 September 2005	547	106	653	477	106	583

Goodwill disclosure for Trust Bank New Zealand and BT Funds Management (NZ) Limited (BTFG)

Goodwill is allocated to, and tested for impairment as a part of identified cash-generating units (CGUs).

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

Goodwill has been allocated to the following CGUs for the purpose of measuring recoverable amount:

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
New Zealand Retail	**512**	512	**477**	477
BTFG	**35**	35	**-**	-
Net carrying amount of goodwill	**547**	547	**477**	477

Note 17 Property, plant and equipment

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Leasehold improvements				
Cost	**137**	139	**1**	1
Accumulated depreciation and impairment losses	**(90)**	(88)	**(1)**	(1)
Net carrying amount of leasehold improvements	**47**	51	**-**	-
Furniture and equipment				
Cost	**222**	224	**126**	125
Accumulated depreciation and impairment losses	**(172)**	(168)	**(103)**	(95)
Net carrying amount of furniture and equipment	**50**	56	**23**	30
Total property, plant and equipment	**97**	107	**23**	30

	NZ Banking Group			NZ Branch		
	Leasehold Improvements $m	Furniture and Equipment $m	Total $m	Leasehold Improvements $m	Furniture and Equipment $m	Total $m
Balance as at 1 October 2005	**51**	**56**	**107**	**-**	**30**	**30**
Additions	**8**	**14**	**22**	**-**	**4**	**4**
Disposals and assets held for sale	**(1)**	**(3)**	**(4)**	**-**	**(1)**	**(1)**
Depreciation	**(11)**	**(17)**	**(28)**	**-**	**(10)**	**(10)**
Net carrying amount as at 30 September 2006	**47**	**50**	**97**	**-**	**23**	**23**
Balance as at 1 October 2004	57	56	113	-	30	30
Additions	7	21	28	-	13	13
Disposals and assets held for sale	(1)	(4)	(5)	-	(3)	(3)
Depreciation	(12)	(17)	(29)	-	(10)	(10)
Net carrying amount as at 30 September 2005	51	56	107	-	30	30

Note 18 Deferred tax assets

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**8**	10	**-**	-
Provision for loan impairment	**58**	100	**56**	98
Provision for employee entitlements	**23**	21	**23**	24
Cash flow hedge	**10**	-	**10**	-
Other temporary differences	**3**	3	**3**	2
Amounts recognised directly in equity	**-**	9	**-**	9
Set off of deferred tax liabilities (refer to Note 24)	**(7)**	-	**(9)**	-
Balance at end of the year	**95**	143	**83**	133
Movements				
Balance at beginning of the year	**143**	188	**133**	130
Prior year adjustments	**(5)**	-	**(7)**	-
Adoption of NZ IAS 32/39	**(47)**		**(44)**	
Set off of deferred tax liabilities (refer to Note 24)	**(7)**	-	**(9)**	-
Credited/(charged) to the income statement	**11**	(45)	**10**	3
Balance at end of the year	**95**	143	**83**	133

Note 19 Other assets

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Accrued interest receivable	**141**	124	**137**	119
Securities sold not yet delivered	**52**	162	**52**	162
Deferred expenditure (after accumulated amortisation of nil (30 September 2005 $1 million))	**-**	49	**-**	49
Other assets	**348**	165	**323**	145
Total other assets	**541**	500	**512**	475

Note 20 Due to other financial institutions

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Interest bearing	**2,735**	1,520	**735**	1,520
Non-interest bearing	**457**	225	**457**	225
Total due to other financial institutions	**3,192**	1,745	**1,192**	1,745
Due to other financial institutions comprises of:				
At call	**1,192**	225	**1,192**	225
Term	**2,000**	1,520	**-**	1,520
Total due to other financial institutions	**3,192**	1,745	**1,192**	1,745

Note 21 Deposits

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Deposits at fair value				
Certificates of deposit	**4,122**	3,847	**4,122**	3,847
Total deposits at fair value	**4,122**	3,847	**4,122**	3,847
Deposits at amortised cost				
Non-interest bearing, repayable at call	**2,155**	2,030	**2,155**	2,030
Other interest bearing:				
At call	**11,274**	9,376	**11,274**	9,376
Term	**12,812**	12,311	**12,812**	12,311
Total deposits at amortised cost	**26,241**	23,717	**26,241**	23,717
Total deposits	**30,363**	27,564	**30,363**	27,564

Note 22 Other trading liabilities

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Other trading liabilities				
Securities sold short	**105**	19	**105**	19
Securities sold under agreements to repurchase	**34**	326	**34**	326
Total other trading liabilities	**139**	345	**139**	345

Note 23 Debt issues

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Short term debt				
Commercial paper	**5,460**	6,196	**-**	-
Total short term debt	**5,460**	6,196	**-**	-
Long term debt				
Euro medium term notes	**1,751**	2,190	**-**	-
Domestic medium term notes	**-**	100	**-**	100
Corporate bonds	**-**	67	**-**	-
Total long term debt	**1,751**	2,357	**-**	100
Total debt issues	**7,211**	8,553	**-**	100

Note 24 Deferred tax liabilities

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Deferred tax liabilities are attributable to the following:				
Property, plant and equipment	**-**	3	**2**	3
Intangible assets	**1**	-	**1**	-
Other temporary differences	**1**	6	**1**	6
Amounts recognised directly in equity	**5**	-	**5**	-
Set off of deferred tax assets (refer to Note 18)	**(7)**	-	**(9)**	-
Balance at end of the year	**-**	9	**-**	9
Movements				
Balance at beginning of the year	**9**	6	**9**	3
Prior year adjustments	**(5)**	-	**(3)**	-
Adoption of NZ IAS 32/39	**-**		**-**	
Set off of deferred tax assets (refer to Note 18)	**(7)**	-	**(9)**	-
Charged to the income statement	**-**	3	**-**	6
Charged to equity	**3**	-	**3**	-
Balance at end of the year	**-**	9	**-**	9

Note 25 Provisions

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Long service leave	**9**	9	**9**	9
Annual leave and other staff benefits	**37**	34	**36**	32
Non-lending losses	**7**	2	**7**	2
Off-balance sheet provisions	**20**		**19**	
Restructuring provisions	**1**		**1**	
Total provisions	**74**	45	**72**	43

	Long Service Leave $m	Annual Leave and Other Staff Benefits $m	Non-Lending Losses $m	Off-Balance Sheet Provisions $m	Restructuring Provisions $m	Total $m
NZ Banking Group						
Balance as at 30 September 2005	**9**	**34**	**2**			**45**
Adoption of NZ IAS 32/39	**-**	**-**	**-**	**16**	**-**	**16**
Additional provisions recognised	**1**	**24**	**5**	**4**	**1**	**35**
Utilised during the year	**(1)**	**(21)**	**-**	**-**	**-**	**(22)**
Balance as at 30 September 2006	**9**	**37**	**7**	**20**	**1**	**74**
NZ Branch						
Balance as at 30 September 2005	**9**	**32**	**2**			**43**
Adoption of NZ IAS 32/39	**-**	**-**	**-**	**16**	**-**	**16**
Additional provisions recognised	**1**	**24**	**5**	**3**	**1**	**34**
Utilised during the year	**(1)**	**(20)**	**-**	**-**	**-**	**(21)**
Balance as at 30 September 2006	**9**	**36**	**7**	**19**	**1**	**72**

Note 26 Other liabilities

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Accrued interest payable	**268**	240	**212**	170
Securities purchased not yet delivered	**68**	158	**68**	158
Claims reserves	**9**	8	**-**	-
Credit card loyalty programme	**30**	27	**30**	27
Other liabilities	**160**	163	**183**	169
Total other liabilities	**535**	596	**493**	524

Note 27 Priority of financial liabilities in the event of a winding up

	NZ Banking Group		NZ Branch	
	2006 **$m**	2005 $m	**2006** **$m**	2005 $m
Deposits at amortised cost	**26,241**	23,717	**26,241**	23,717
Deposits at fair value	**4,122**	3,847	**4,122**	3,847
Debt issues	**7,211**	8,553	**-**	100
Due to other financial institutions	**3,192**	1,745	**1,192**	1,745
Other trading liabilities	**139**	345	**139**	345
Derivative financial instruments	**1,576**	1,153	**1,576**	1,153
Other liabilities	**526**	588	**493**	524
Subordinated debentures	**1,489**	758	**1,489**	758
Due to related entities	**4,116**	602	**12,075**	11,921
Total financial liabilities	**48,612**	41,308	**47,327**	44,110

Note 28 Subordinated debentures

	NZ Banking Group		NZ Branch	
	2006 **$m**	2005 $m	**2006** **$m**	2005 $m
Junior subordinated debentures	**762**	758	**762**	758
Fixed Interest Resettable Trust Securities[1]	**727**	-	**727**	-
Total subordinated debentures	**1,489**	758	**1,489**	758

[1] Following adoption of NZ IAS 32/39, on 1 October 2005, the Fixed Interest Resettable Trust Securities have been reclassified as subordinated debt and are included in total liabilities as at 30 September 2006. As comparative years have not been restated for the effects of NZ IAS 32/39, the Fixed Interest Resettable Trust Securities are classified as convertible debentures and are included in equity as at 30 September 2005.

Junior subordinated debentures

On 5 April 2004, the NZ Branch issued US$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV being a member of the Overseas Banking Group and have been recognised net of issue costs of NZ$9 million.

The convertible debentures are unsecured obligations of the NZ Branch and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Branch'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 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.

Fixed Interest Resettable Trust Securities

On 19 December 2002, the NZ Branch issued Convertible Debentures to Westpac Financial Services Limited as responsible entity (a public company with an Australian financial services license to operate a registered managed investment scheme) of Westpac Second Trust. The investment in convertible debentures was ultimately sourced from the proceeds of approximately A$655 million (net of issue costs) of Westpac Fixed Interest Resettable Securities (Westpac FIRsTS) issued by Westpac Funds Management Limited as responsible entity of Westpac First Trust. Both the Westpac First Trust and the Westpac Second Trust are Australian registered managed investment schemes and are members of the Overseas Banking Group.

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

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

Note 28 Subordinated debentures (continued)

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 Branch 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 (e.g. 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.

Note 29 Convertible debentures

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Trust preferred securities	**1,284**	1,284	**1,284**	1,284
Fixed Interest Resettable Trust Securities[1]	**-**	719	**-**	719
Total convertible debentures	**1,284**	2,003	**1,284**	2,003

[1] Following adoption of NZ IAS 32/39, on 1 October 2005, the Westpac FIRsTS have been reclassified as subordinated debt and are included in total liabilities as at 30 September 2006. As comparative years have not been restated for the effects of NZ IAS 32/39, the Westpac FIRsTS are classified as convertible debentures and are included in equity as at 30 September 2005. More information on the Westpac FIRsTS is provided in Note 28.

Trust preferred securities

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

The convertible debentures are unsecured obligations of the NZ Branch and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Branch'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.

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 Branch 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 US dollars. The NZ Branch 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 Branch 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.

Note 30 Commitments and contingent liabilities

The NZ Banking Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The NZ Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the NZ Banking Group's option.

The NZ Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

The NZ Banking Group is obliged to repurchase securitised loans disclosed off-balance sheet where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform with the terms and conditions of the Westpac Securitisation Trust programme. It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from this obligation.

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

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Commitments for capital expenditure				
Due within one year	**50**	28	**50**	26
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**118**	140	**118**	140
Motor vehicles	**3**	6	**3**	6
Total lease commitments	**121**	146	**121**	146
Lease commitments are due as follows:				
One year or less	**33**	37	**33**	37
Between one and five years	**80**	93	**80**	93
Over five years	**8**	16	**8**	16
Total lease commitments	**121**	146	**121**	146
Contingent liabilities				
Direct credit substitutes	**281**	252	**281**	252
Transaction related contingent items	**595**	574	**595**	574
Short term, self liquidating trade related contingent liabilities	**680**	648	**680**	648
Total contingent liabilities	**1,556**	1,474	**1,556**	1,474

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

The New Zealand Inland Revenue Department (NZIRD) is reviewing a number of structured finance transactions undertaken in New Zealand and has issued reassessments in respect of seven transactions, three undertaken in the 1999 tax year, two undertaken in the 2000 tax year and two undertaken in the 2001 tax year. The maximum potential tax liability reassessed for the 1999 year is $18 million ($25 million with interest), for the 2000 year is $61 million ($85 million with interest) and for the 2001 year is $90 million ($127 million with interest).

The NZIRD is also investigating other transactions undertaken by the NZ Branch, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the periods up to and including 30 September 2006, the overall primary tax in dispute will be approximately $611 million (this includes the amounts noted above). With interest this increases to approximately $793 million (calculated to 30 September 2006).

Proceedings disputing the reassessments with respect to the 1999, 2000 and 2001 tax years have been commenced. The NZ Branch is confident that the tax treatment applied in all cases is correct. A ruling was sought 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 30 Commitments and contingent liabilities (continued)

Other contingent liabilities

The New Zealand Commerce Commission prosecuted the NZ Branch, and has prosecuted or is prosecuting six other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 105 charges were laid against the NZ Branch (plus one duplicate charge). The NZ Branch pleaded guilty to 19 charges of breaching the Fair Trading Act 1986 and 86 charges were withdrawn. On 29 September 2006, the NZ Branch was convicted and discharged in respect of 7 charges and convicted and fined a total of $570,000 in respect of the remaining 12 charges. The NZ Branch has also settled civil proceedings brought against it by the Commerce Commission claiming refunds of the currency conversion fees paid by customers during the relevant periods covered by the claim for NZ$4.5 million, which will be refunded to customers in accordance with an agreed process. In addition, the Commerce Commission has served 29 charges on The Warehouse Financial Services Limited, a member of the NZ Banking Group. Penalties under the Fair Trading Act 1986 could include a fine of up to $200,000 per charge. As at the date of signing the General Disclosure Statement by the Directors, no civil proceedings have been commenced against The Warehouse Financial Services Limited.

On 13 September 2006, the Reserve Bank of New Zealand ('Reserve Bank') requested the NZ Branch to undertake an independent assessment of certain aspects of NZ Branch's IT security procedures. Terms of reference for the independent review have been agreed with the Reserve Bank under the section 95 of the Reserve Bank of New Zealand Act 1989. The review is scheduled to be completed by 30 November 2006.

The NZ Banking Group has a contingent liability, which arises from it holding an investment in Cards NZ Limited (Cards NZ) (formerly Visa New Zealand Limited). Cards NZ, 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 Cards NZ 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 Banking Group 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 Branch leases the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the NZ Branch, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the NZ Branch upon vacation of all leased premises subject to these provisions is estimated to be $14 million. The NZ Branch believes it is highly unlikely that it would incur a material operating loss as a result of vacating of all leased premises in the normal course of its business operations.

Other commitments

As at 30 September 2006, 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 32. 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.

Overseas Banking Group guarantees and undertakings

Certain guarantees and undertakings extended to entities in the NZ Banking Group by the Overseas Banking Group are excluded from the consolidated amounts disclosed above. These include guarantees of commercial paper and other debt securities issued by WestpacTrust Securities NZ Limited that are immediately on lent to the Overseas Banking Group, in accordance with guidelines provided by APRA.

Note 31 Maturity analysis

The following maturity analysis of monetary assets and liabilities is based on the remaining period as at balance date to the contractual maturity. The majority of the longer term maturity assets are variable rate products. When managing interest rate and liquidity risks, the NZ Banking Group adjusts this contractual profile for expected customer behaviour.

	NZ Banking Group							
	2006							
	At Call $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	No Specific Maturity $m	Total $m
Monetary assets								
Cash	248	-	-	-	-	-	-	248
Due from other financial institutions	749	35	-	274	-	-	-	1,058
Derivative financial instruments	-	103	167	334	596	166	6	1,372
Other trading securities	-	962	1,467	144	27	72	-	2,672
Other financial assets designated at fair value	-	-	-	-	1,550	-	-	1,550
Available-for-sale securities	-	-	325	147	-	-	-	472
Loans	5,272	2,108	3,084	1,667	4,699	25,115	(154)	41,791
Life insurance assets	-	34	41	-	-	-	-	75
Due from related entities	1,489	-	-	-	-	-	-	1,489
Other monetary assets	-	260	-	1	-	-	280	541
Total monetary assets	7,758	3,502	5,084	2,567	6,872	25,353	132	51,268
Non-monetary assets	-	-	-	-	-	-	868	868
Total assets	7,758	3,502	5,084	2,567	6,872	25,353	1,000	52,136
Monetary liabilities								
Due to other financial institutions	1,192	-	-	-	-	2,000	-	3,192
Deposits at fair value	-	724	2,209	1,176	13	-	-	4,122
Deposits at amortised cost	13,429	5,067	4,646	2,696	403	-	-	26,241
Derivative financial instruments	-	176	214	390	644	152	-	1,576
Other trading liabilities	-	139	-	-	-	-	-	139
Debt issues	-	2,739	2,408	1,545	519	-	-	7,211
Other monetary liabilities	-	400	-	-	42	-	56	498
Subordinated debentures	-	-	-	-	727	762	-	1,489
Due to related entities	4,116	-	-	-	-	-	-	4,116
Total monetary liabilities	18,737	9,245	9,477	5,807	2,348	2,914	56	48,584
Non-monetary liabilities	-	-	-	-	-	-	107	107
Total liabilities	18,737	9,245	9,477	5,807	2,348	2,914	163	48,691
Net assets	(10,979)	(5,743)	(4,393)	(3,240)	4,524	22,439	837	3,445

Note 31 Maturity analysis (continued)

	NZ Banking Group							
	2005							
	At Call $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	No Specific Maturity $m	Total $m
Monetary assets								
Cash	305	-	-	-	-	-	-	305
Due from other financial institutions	107	45	-	-	-	-	-	152
Derivative financial instruments	-	121	84	188	392	175	-	960
Other trading securities	-	1,216	1,237	1,366	212	96	-	4,127
Other financial assets designated at fair value								
Available-for-sale securities								
Loans	3,864	2,678	2,405	1,633	4,010	22,995	(299)	37,286
Life insurance assets	-	30	34	-	-	-	-	64
Due from related entities	993	-	-	-	-	-	-	993
Other monetary assets	-	328	-	-	1	49	122	500
Total monetary assets	5,269	4,418	3,760	3,187	4,615	23,315	(177)	44,387
Non-monetary assets	-	-	-	-	-	-	949	949
Total assets	5,269	4,418	3,760	3,187	4,615	23,315	772	45,336
Monetary liabilities								
Due to other financial institutions	225	1,520	-	-	-	-	-	1,745
Deposits at fair value	-	334	2,772	734	7	-	-	3,847
Deposits at amortised cost	11,406	5,590	3,432	2,899	389	1	-	23,717
Derivative financial instruments	-	163	79	213	477	221	-	1,153
Other trading liabilities	-	345	-	-	-	-	-	345
Debt issues	-	3,351	2,881	1,263	991	67	-	8,553
Other monetary liabilities	-	461	-	-	50	-	77	588
Subordinated debentures	-	-	-	-	-	758	-	758
Due to related entities	602	-	-	-	-	-	-	602
Total monetary liabilities	12,233	11,764	9,164	5,109	1,914	1,047	77	41,308
Non-monetary liabilities	-	-	-	-	-	-	62	62
Total liabilities	12,233	11,764	9,164	5,109	1,914	1,047	139	41,370
Net assets	(6,964)	(7,346)	(5,404)	(1,922)	2,701	22,268	633	3,966

Note 31 Maturity analysis (continued)

	NZ Branch							
	2006							
	At Call $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	No Specific Maturity $m	Total $m
Monetary assets								
Cash	**246**	-	-	-	-	-	-	**246**
Due from other financial institutions	**749**	-	-	-	-	-	-	**749**
Derivative financial instruments	-	**103**	**167**	**334**	**596**	**166**	**6**	**1,372**
Other trading securities	-	**962**	**1,466**	**144**	**27**	**72**	-	**2,671**
Other financial assets designated at fair value	-	-	-	-	-	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-	-
Loans	**5,198**	**2,025**	**2,972**	**1,664**	**4,703**	**24,988**	**(151)**	**41,399**
Due from related entities	**2,383**	-	-	-	-	-	-	**2,383**
Other monetary assets	-	**249**	-	-	-	-	**263**	**512**
Total monetary assets	**8,576**	**3,339**	**4,605**	**2,142**	**5,326**	**25,226**	**118**	**49,332**
Non-monetary assets	-	-	-	-	-	-	**712**	**712**
Total assets	**8,576**	**3,339**	**4,605**	**2,142**	**5,326**	**25,226**	**830**	**50,044**
Monetary liabilities								
Due to other financial institutions	**1,192**	-	-	-	-	-	-	**1,192**
Deposits at fair value	-	**724**	**2,209**	**1,176**	**13**	-	-	**4,122**
Deposits at amortised cost	**13,429**	**5,067**	**4,646**	**2,696**	**403**	-	-	**26,241**
Derivative financial instruments	-	**176**	**214**	**390**	**644**	**152**	-	**1,576**
Other trading liabilities	-	**139**	-	-	-	-	-	**139**
Debt issues	-	-	-	-	-	-	-	-
Other monetary liabilities	-	**335**	-	-	**43**	-	**115**	**493**
Subordinated debentures	-	-	-	-	**727**	**762**	-	**1,489**
Due to related entities	**12,075**	-	-	-	-	-	-	**12,075**
Total monetary liabilities	**26,696**	**6,441**	**7,069**	**4,262**	**1,830**	**914**	**115**	**47,327**
Non-monetary liabilities	-	-	-	-	-	-	**107**	**107**
Total liabilities	**26,696**	**6,441**	**7,069**	**4,262**	**1,830**	**914**	**222**	**47,434**
Net assets	**(18,120)**	**(3,102)**	**(2,464)**	**(2,120)**	**3,496**	**24,312**	**608**	**2,610**

Note 31 Maturity analysis (continued)

	NZ Branch 2005							
	At Call $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	No Specific Maturity $m	Total $m
Monetary assets								
Cash	305	-	-	-	-	-	-	305
Due from other financial institutions	106	-	-	-	-	-	-	106
Derivative financial instruments	-	121	84	188	392	175	-	960
Other financial assets designated at fair value	-	1,216	1,237	1,366	212	96	-	4,127
Available-for-sale securities								
Loans	3,763	2,586	2,328	1,619	3,978	22,816	(295)	36,795
Due from related entities	1,944	-	-	-	-	-	-	1,944
Other monetary assets	-	316	-	-	-	49	110	475
Total monetary assets	6,118	4,239	3,649	3,173	4,582	23,136	(185)	44,712
Non-monetary assets	-	-	-	-	-	-	2,543	2,543
Total assets	6,118	4,239	3,649	3,173	4,582	23,136	2,358	47,255
Monetary liabilities								
Due to other financial institutions	225	1,520	-	-	-	-	-	1,745
Deposits at fair value	-	334	2,772	734	7	-	-	3,847
Deposits at amortised cost	11,406	5,590	3,432	2,899	389	1	-	23,717
Derivative financial instruments	-	163	79	213	477	221	-	1,153
Other trading liabilities	-	345	-	-	-	-	-	345
Debt issues	-	100	-	-	-	-	-	100
Other monetary liabilities	-	383	-	-	50	-	91	524
Subordinated debentures	-	-	-	-	-	758	-	758
Due to related entities	11,921	-	-	-	-	-	-	11,921
Total monetary liabilities	23,552	8,435	6,283	3,846	923	980	91	44,110
Non-monetary liabilities	-	-	-	-	-	-	52	52
Total liabilities	23,552	8,435	6,283	3,846	923	980	143	44,162
Net assets	(17,434)	(4,196)	(2,634)	(673)	3,659	22,156	2,215	3,093

Note 32 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.

Securitised mortgages in non-consolidated entities are excluded from the balance sheet, but 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.

Calculation of on-balance sheet exposures

	NZ Banking Group		
	2006		
	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	897	0%	-
Long term claims on government	31	10%	3
Claims on banks	4,758	20%	952
Claims on public sector entities	243	20%	49
Residential mortgages	24,514	50%	12,257
Other assets	18,087	100%	18,087
Non-risk weighted assets	3,606		-
Total on-balance sheet exposures	52,136		31,348

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Securitised mortgages	643	50%	322
Total off-balance sheet securitised mortgage exposures	643		322

Calculation of off-balance sheet and derivative 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	281	100%	281	80%	225
Total direct credit substitutes	281		281		225
Commitments					
Commitments with certain drawdown	50	100%	50	100%	50
Housing loan commitments with certain drawdown	143	100%	143	50%	72
Transaction related contingent items	595	50%	298	90%	269
Short term, self liquidating trade related contingent liabilities	680	20%	136	100%	136
Other commitments to provide financial services which have an original maturity of one year or more	7,014	50%	3,507	65%	2,276
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,787	0%	-	0%	-
Total commitments	14,269		4,134		2,803
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	54,950		1,265	24%	301
Options	-		-	0%	-
Swaps	22,233		1,343	25%	337
Interest rate contracts:					
Forwards	26,252		12	50%	6
Futures	10,634		-	0%	-
Options	5,114		2	50%	1
Swaps	129,636		1,048	27%	281
Total market related contracts (derivatives)	248,819		3,670		926
Total off-balance sheet and derivative exposures	263,369		8,085		3,954
Total risk weighted exposures					35,624

Note 32 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Banking Group 2005		
	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	2,431	20%	486
Claims on public sector entities	204	20%	41
Residential mortgages	21,557	50%	10,779
Other assets	16,541	100%	16,541
Non-risk weighted assets	2,754		-
Total on-balance sheet exposures	45,336		27,871

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Securitised mortgages	590	50%	295
Total off-balance sheet securitised mortgage exposures	590		295

Calculation of off-balance sheet and derivative 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	87%	249
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	65%	2,016
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		2,472
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 and derivative exposures	190,326		6,278		3,383
Total risk weighted exposures					31,549

Note 32 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch				
	2006				
	Principal Amount $m			Risk Weighting	Risk Weighted Exposure $m
Cash and short term claims on government	880			0%	-
Long term claims on government	31			10%	3
Claims on banks	2,427			20%	485
Claims on public sector entities	243			20%	49
Residential mortgages	24,369			50%	12,185
Other assets	18,570			100%	18,570
Non-risk weighted assets	3,524				-
Total on-balance sheet exposures	50,044				31,292
Calculation of off-balance sheet securitised mortgage exposures					
Securitised mortgages	643			50%	322
Total off-balance sheet securitised mortgage exposures	643				322

Calculation of off-balance sheet and derivative 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	281	100%	281	80%	225
Total direct credit substitutes	281		281		225
Commitments					
Commitments with certain drawdown	2,300	100%	2,300	100%	2,300
Housing loan commitments with certain drawdown	143	100%	143	50%	72
Transaction related contingent items	595	50%	298	90%	269
Short term, self liquidating trade related contingent liabilities	680	20%	136	100%	136
Other commitments to provide financial services which have an original maturity of one year or more	7,014	50%	3,507	65%	2,276
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,787	0%	-	0%	-
Total commitments	16,519		6,384		5,053
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	54,950		1,265	24%	301
Options	-		-	0%	-
Swaps	22,233		1,343	25%	337
Interest rate contracts:					
Forwards	26,252		12	50%	6
Futures	10,634		-	0%	-
Options	5,114		2	50%	1
Swaps	129,636		1,048	27%	281
Total market related contracts (derivatives)	248,819		3,670		926
Total off-balance sheet and derivative exposures	265,619		10,335		6,204
Total risk weighted exposures					37,818

Note 32 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch		
	2005		
	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	18,919	100%	18,919
Non-risk weighted assets	2,648		-
Total on-balance sheet exposures	47,255		30,093

Calculation of off-balance sheet securitised mortgage exposures

	Principal Amount $m	Risk Weighting	Risk Weighted Exposure $m
Securitised mortgages	590	50%	295
Total off-balance sheet securitised mortgage exposures	590		295

Calculation of off-balance sheet and derivative 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	87%	249
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	65%	2,016
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		2,470
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 and derivative exposures	190,324		6,276		3,381
Total risk weighted exposures					33,769

Note 33 Concentration of credit exposures

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
On-balance sheet credit exposures consists of				
Cash	**248**	305	**246**	305
Due from other financial institutions	**1,058**	152	**749**	106
Derivative financial instruments	**1,372**	960	**1,372**	960
Other trading securities	**2,672**	4,127	**2,671**	4,127
Other financial assets designated at fair value	**1,550**		**-**	
Available-for-sale securities	**472**		**-**	
Loans	**41,791**	37,286	**41,399**	36,795
Life insurance assets	**75**	64	**-**	-
Due from related entities	**1,489**	993	**2,383**	1,944
Other assets	**541**	500	**512**	475
Total on-balance sheet credit exposures	**51,268**	44,387	**49,332**	44,712
Analysis of on-balance sheet credit exposures by geographical areas				
Within New Zealand	**49,686**	43,173	**47,750**	43,399
Australia and Asia-Pacific	**1,582**	1,214	**1,582**	1,313
Total on-balance sheet credit exposures	**51,268**	44,387	**49,332**	44,712
Analysis of on-balance sheet credit exposures by industry and economic sector				
Government and other public authorities	**1,773**	1,626	**1,771**	1,626
Agriculture	**3,620**	2,999	**3,620**	2,999
Other primary industries	**356**	363	**356**	363
Commercial and financial	**16,630**	14,470	**14,040**	14,228
Real estate - construction	**370**	477	**370**	477
Real estate - mortgage	**24,514**	21,557	**24,369**	21,263
Instalment loans and other personal lending	**2,308**	1,966	**2,238**	1,895
Subtotal	**49,571**	43,458	**46,764**	42,851
Collectively impaired provision	**(140)**	(281)	**(138)**	(277)
Due from related entities	**1,489**	993	**2,383**	1,944
Other assets	**348**	217	**323**	194
Total on-balance sheet credit exposures	**51,268**	44,387	**49,332**	44,712
Off-balance sheet credit and derivative exposures by credit equivalent consists of				
Contingent liabilities and commitments	**4,415**	3,909	**6,665**	3,907
Derivatives	**3,670**	2,369	**3,670**	2,369
Total off-balance sheet credit and derivative exposures by credit equivalent	**8,085**	6,278	**10,335**	6,276
Analysis of off-balance sheet credit exposures by industry and economic sector				
Government and other public authorities	**214**	155	**214**	155
Agriculture	**42**	34	**42**	34
Other primary industries	**5**	14	**5**	14
Commercial and financial	**5,546**	4,087	**7,796**	4,085
Real estate - construction	**36**	36	**36**	36
Real estate - mortgage	**2,201**	1,945	**2,201**	1,945
Instalment loans and other personal lending	**41**	7	**41**	7
Total off-balance sheet credit and derivative exposures by credit equivalent	**8,085**	6,278	**10,335**	6,276

Credit exposure is determined with reference to actual credit exposures.

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

Note 33 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.

10 - 20% of Overseas Banking Group's equity	**As at 30 September 2006**	**Peak End-of-Day for the Three Months Ended 30 September 2006**	As at 30 September 2005	Peak End-of-Day for the Three Months Ended 30 September 2005
Individual counterparties				
Bank counterparties	-	-	-	-
Non-bank counterparties	-	-	-	-
Closely related counterparties				
Bank counterparties	-	-	-	-
Non-bank counterparties	-	-	-	-

The peak end-of-day exposure and as at exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the three months ended 30 September 2006 and then dividing that by the Overseas Banking Group's equity as at 30 September 2006. The equity used in the 30 September 2005 comparatives was 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.

	As at 30 September 2006		As at 30 September 2005	
10 - 20% of Overseas Banking Group's equity	**Aggregate Credit Exposure $m**	**Percentage of Large Exposures %**	Aggregate Credit Exposure $m	Percentage of Large Exposures %
Individual counterparties				
Bank counterparties:				
Credit rating of BBB- and above	-	-	-	-
Credit rating below BBB-	-	-	-	-
Without investment grade credit rating	-	-	-	-
Non-bank counterparties:				
Credit rating of BBB- and above	-	-	-	-
Credit rating below BBB-	-	-	-	-
Without investment grade credit rating	-	-	-	-
Closely related counterparties				
Bank counterparties:				
Credit rating of BBB- and above	-	-	-	-
Credit rating below BBB-	-	-	-	-
Without investment grade credit rating	-	-	-	-
Non-bank counterparties:				
Credit rating of BBB- and above	-	-	-	-
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 34 Concentration of funding

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Funding consists of				
Due to other financial institutions	**3,192**	1,745	**1,192**	1,745
Deposits at fair value	**4,122**	3,847	**4,122**	3,847
Deposits at amortised cost	**26,241**	23,717	**26,241**	23,717
Debt issues[1]	**7,211**	8,553	**-**	100
Subordinated debentures	**1,489**	758	**1,489**	758
Due to related entities	**4,116**	602	**12,075**	11,921
Total funding	**46,371**	39,222	**45,119**	42,088
Analysis of funding by product				
Saving accounts	**5,232**	2,474	**5,232**	2,474
Certificates of deposits	**4,122**	3,847	**4,122**	3,847
Demand deposits	**5,892**	6,825	**5,892**	6,825
Other deposits and borrowings	**22,328**	22,971	**15,117**	14,518
Subordinated debentures	**1,489**	758	**1,489**	758
Subtotal	**39,063**	36,875	**31,852**	28,422
Due to other financial institutions	**3,192**	1,745	**1,192**	1,745
Due to related entities	**4,116**	602	**12,075**	11,921
Total funding	**46,371**	39,222	**45,119**	42,088
Analysis of funding by geographical areas[1]				
New Zealand	**36,378**	29,289	**42,398**	40,350
Australia and Asia-Pacific	**2,265**	967	**1,959**	980
United Kingdom and Europe	**2,364**	2,780	**-**	-
North America	**5,364**	6,186	**762**	758
Total funding	**46,371**	39,222	**45,119**	42,088
Analysis of funding by industry and economic sector				
Government and other public authorities	**1,705**	1,574	**1,705**	1,574
Agriculture	**1,031**	850	**1,031**	850
Other primary industries	**275**	176	**275**	176
Commercial and financial	**24,089**	22,173	**14,878**	13,720
Households	**15,155**	13,847	**15,155**	13,847
Subtotal	**42,255**	38,620	**33,044**	30,167
Due to related entities	**4,116**	602	**12,075**	11,921
Total funding	**46,371**	39,222	**45,119**	42,088

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

Note 35 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 balance sheet 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.

Note 35 Fair value of financial instruments (continued)

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.

Due to other financial institutions, deposits and debt issues

The fair value of demand deposits 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 debentures

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

	NZ Banking Group			
	2006 Carrying Amount $m	**2006 Estimated Fair Value $m**	2005 Carrying Amount $m	2005 Estimated Fair Value $m
Financial assets				
Cash	**248**	**248**	305	305
Due from other financial institutions	**1,058**	**1,058**	152	152
Derivative financial instruments	**1,372**	**1,372**	960	960
Other trading securities	**2,672**	**2,672**	4,127	4,127
Other financial instruments designated at fair value	**1,550**	**1,550**		
Available-for-sale securities	**472**	**472**		
Loans	**41,791**	**41,640**	37,286	37,192
Life insurance assets	**75**	**75**	64	64
Due from related entities	**1,489**	**1,489**	993	993
Other financial assets	**541**	**541**	500	500
Total financial assets	**51,268**	**51,117**	44,387	44,293
Non-financial assets	**868**		949	
Total assets	**52,136**		45,336	
Financial liabilities				
Due to other financial institutions	**3,192**	**3,192**	1,745	1,745
Deposits at fair value	**4,122**	**4,122**	3,847	3,847
Deposits at amortised cost	**26,241**	**26,266**	23,717	23,739
Derivative financial instruments	**1,576**	**1,576**	1,153	1,153
Other trading liabilities	**139**	**139**	345	345
Debt issues	**7,211**	**6,967**	8,553	8,555
Other financial liabilities	**526**	**526**	588	588
Subordinated debentures	**1,489**	**1,489**	758	758
Due to related entities	**4,116**	**4,116**	602	602
Total financial liabilities	**48,612**	**48,393**	41,308	41,332
Non-financial liabilities	**107**		62	
Total liabilities	**48,719**		41,370	

Note 35 Fair value of financial instruments (continued)

	NZ Branch			
	2006 Carrying Amount $m	**2006 Estimated Fair Value $m**	2005 Carrying Amount $m	2005 Estimated Fair Value $m
Financial assets				
Cash	**246**	**246**	305	305
Due from other financial institutions	**749**	**749**	106	106
Derivative financial instruments	**1,372**	**1,372**	960	960
Other trading securities	**2,671**	**2,671**	4,127	4,127
Other financial instruments designated at fair value	-	-		
Available-for-sale securities	-	-		
Loans	**41,399**	**41,249**	36,795	36,701
Due from related entities	**2,383**	**2,383**	1,944	1,944
Other financial assets	**512**	**512**	475	475
Total financial assets	**49,332**	**49,182**	44,712	44,618
Non-financial assets	**712**		2,543	
Total assets	**50,044**		47,255	
Financial liabilities				
Due to other financial institutions	**1,192**	**1,192**	1,745	1,745
Deposits at fair value	**4,122**	**4,122**	3,847	3,847
Deposits at amortised cost	**26,241**	**26,266**	23,717	23,739
Derivative financial instruments	**1,576**	**1,576**	1,153	1,153
Other trading liabilities	**139**	**139**	345	345
Debt issues	-	-	100	100
Other financial liabilities	**493**	**493**	524	524
Subordinated debentures	**1,489**	**1,489**	758	758
Due to related entities	**12,075**	**12,075**	11,921	11,923
Total financial liabilities	**47,327**	**47,352**	44,110	44,134
Non-financial liabilities	**107**		52	
Total liabilities	**47,434**		44,162	

Note 36 Interest rate risk

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the asset and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the Group's net asset position as at 30 September 2006. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in Note 2.

	NZ Banking Group										
	2006										
	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 2 Years $m	2 Years to 3 Years $m	3 Years to 4 Years $m	4 Years to 5 Years $m	Over 5 Years $m	Non-Interest Bearing $m	Total $m	Weighted Average Interest Rate % [1]
Financial assets											
Cash	-	-	-	-	-	-	-	-	248	248	0.0
Due from other financial institutions	784	-	-	-	-	-	-	-	274	1,058	7.2
Derivative financial instruments	5	-	-	-	-	-	-	-	1,367	1,372	7.3
Other trading securities	2,662	-	-	-	-	-	-	-	10	2,672	7.4
Other financial assets designated at fair value	-	1,550	-	-	-	-	-	-	-	1,550	7.4
Available-for-sale securities	-	449	-	-	-	-	-	-	23	472	7.5
Loans	16,782	5,086	6,603	7,268	3,930	567	1,629	82	(155)	41,791	8.8
Life insurance assets	-	-	-	-	-	-	-	-	75	75	0.0
Due from related entities	19	-	-	-	-	-	-	-	1,470	1,489	7.3
Other financial assets	-	-	-	-	-	-	-	-	541	541	0.0
Total financial assets	20,252	7,085	6,603	7,268	3,930	567	1,629	82	3,853	51,268	
Non-financial assets										868	
Total assets										52,136	
Financial liabilities											
Due to other financial institutions	735	2,000	-	-	-	-	-	-	457	3,192	7.3
Deposits at fair value	724	2,208	1,176	14	-	-	-	-	-	4,122	7.5
Deposits at amortised cost	16,295	4,646	2,696	285	75	33	10	-	2,200	26,241	5.7
Derivative financial instruments	-	-	-	-	-	-	-	-	1,576	1,576	0.0
Other trading liabilities	139	-	-	-	-	-	-	-	-	139	6.5
Debt issues	2,739	2,408	1,545	519	-	-	-	-	-	7,211	5.3
Other financial liabilities	-	-	-	-	-	-	-	-	526	526	0.0
Subordinated debentures	-	-	-	727	-	-	-	762	-	1,489	6.5
Due to related entities	3,257	-	-	-	-	-	-	-	859	4,116	7.3
Total financial liabilities	23,889	11,262	5,417	1,545	75	33	10	762	5,618	48,612	
Non-financial liabilities										107	
Total liabilities										48,719	
Financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	3,885	2,296	(6,457)	206	50	20	-	-	-	-	

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

Note 36 Interest rate risk (continued)

	NZ Banking Group										
	2005										
	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 2 Years $m	2 Years to 3 Years $m	3 Years to 4 Years $m	4 Years to 5 Years $m	Over 5 Years $m	Non-Interest Bearing $m	Total $m	Weighted Average Interest Rate % [1]
Financial assets											
Cash	-	-	-	-	-	-	-	-	305	305	0.0
Due from other financial institutions	152	-	-	-	-	-	-	-	-	152	4.8
Derivative financial instruments	6	-	-	-	-	-	-	-	954	960	6.8
Other trading securities	4,130	-	-	-	-	-	-	-	(3)	4,127	6.9
Other financial assets designated at fair value											
Available-for-sale securities											
Loans	17,856	3,422	6,942	6,649	1,913	439	302	64	(301)	37,286	8.4
Life insurance assets	-	-	-	-	-	-	-	-	64	64	0.0
Due from related entities	36	-	-	-	-	-	-	-	957	993	6.8
Other financial assets	-	-	-	-	-	-	-	-	500	500	0.0
Total financial assets	22,180	3,422	6,942	6,649	1,913	439	302	64	2,475	44,387	
Non-financial assets										949	
Total assets										45,336	
Financial liabilities											
Due to other financial institutions	1,520	-	-	-	-	-	-	-	225	1,745	6.8
Deposits at fair value	334	2,772	734	2	5	-	-	-	-	3,847	6.8
Deposits at amortised cost	16,492	2,044	2,746	249	96	26	30	4	2,030	23,717	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,153	1,153	0.0
Other trading liabilities	345	-	-	-	-	-	-	-	-	345	5.6
Debt issues	3,752	3,622	554	500	-	125	-	-	-	8,553	4.4
Other financial liabilities	-	-	-	-	-	-	-	-	588	588	0.0
Subordinated debentures	-	-	-	-	-	-	-	758	-	758	5.3
Due to related entities	59	-	-	-	-	-	-	-	543	602	6.8
Total financial liabilities	22,502	8,438	4,034	751	101	151	30	762	4,539	41,308	
Non-financial liabilities										62	
Total liabilities										41,370	
Financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	(579)	1,071	(3,899)	500	856	2,051	-	-	-	-	

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

Note 36 Interest rate risk (continued)

	NZ Branch										
	2006										
	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 2 Years $m	2 Years to 3 Years $m	3 Years to 4 Years $m	4 Years to 5 Years $m	Over 5 Years $m	Non-Interest Bearing $m	Total $m	Weighted Average Interest Rate % [1]
Financial assets											
Cash	-	-	-	-	-	-	-	-	246	246	0.0
Due from other financial institutions	749	-	-	-	-	-	-	-	-	749	7.2
Derivative financial instruments	5	-	-	-	-	-	-	-	1,367	1,372	7.3
Other trading securities	2,661	-	-	-	-	-	-	-	10	2,671	7.4
Other financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	0.0
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	0.0
Loans	16,444	5,079	6,565	7,262	3,926	567	1,629	80	(153)	41,399	8.8
Life insurance assets	-	-	-	-	-	-	-	-	-	-	0.0
Due from related entities	868	-	-	-	-	-	-	-	1,515	2,383	7.3
Other financial assets	-	-	-	-	-	-	-	-	512	512	0.0
Total financial assets	20,727	5,079	6,565	7,262	3,926	567	1,629	80	3,497	49,332	
Non-financial assets										712	
Total assets										50,044	
Financial liabilities											
Due to other financial institutions	735	-	-	-	-	-	-	-	457	1,192	6.7
Deposits at fair value	724	2,208	1,176	14	-	-	-	-	-	4,122	7.5
Deposits at amortised cost	16,295	4,646	2,696	285	75	33	10	-	2,200	26,241	5.7
Derivative financial instruments	-	-	-	-	-	-	-	-	1,576	1,576	0.0
Other trading liabilities	139	-	-	-	-	-	-	-	-	139	6.5
Debt issues	-	-	-	-	-	-	-	-	-	-	0.0
Other financial liabilities	-	-	-	-	-	-	-	-	493	493	0.0
Subordinated debentures	-	-	-	727	-	-	-	762	-	1,489	6.5
Due to related entities	5,939	4,046	1,021	-	-	-	-	-	1,069	12,075	7.1
Total financial liabilities	23,832	10,900	4,893	1,026	75	33	10	762	5,795	47,327	
Non-financial liabilities										107	
Total liabilities										47,434	
Financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	3,885	2,296	(6,457)	206	50	20	-	-	-	-	

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

Note 36 Interest rate risk (continued)

NZ Branch

	2005										
	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 2 Years $m	2 Years to 3 Years $m	3 Years to 4 Years $m	4 Years to 5 Years $m	Over 5 Years $m	Non-Interest Bearing $m	Total $m	Weighted Average Interest Rate %[1]
Financial assets											
Cash	-	-	-	-	-	-	-	-	305	305	0.0
Due from other financial institutions	106	-	-	-	-	-	-	-	-	106	3.9
Derivative financial instruments	6	-	-	-	-	-	-	-	954	960	6.8
Other trading securities	4,130	-	-	-	-	-	-	-	(3)	4,127	6.9
Other financial assets designated at fair value											
Available-for-sale securities											
Loans	17,448	3,413	6,882	6,637	1,909	438	301	64	(297)	36,795	8.4
Due from related entities	106	-	845	-	-	-	-	-	993	1,944	7.2
Other financial assets	-	-	-	-	-	-	-	-	475	475	0.0
Total financial assets	21,796	3,413	7,727	6,637	1,909	438	301	64	2,427	44,712	
Non-financial assets										2,543	
Total assets										47,255	
Financial liabilities											
Due to other financial institutions	1,520	-	-	-	-	-	-	-	225	1,745	6.8
Deposits at fair value	334	2,772	734	2	5	-	-	-	-	3,847	6.8
Deposits at amortised cost	16,492	2,044	2,746	249	96	26	30	4	2,030	23,717	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,153	1,153	0.0
Other trading liabilities	345	-	-	-	-	-	-	-	-	345	5.6
Debt issues	-	100	-	-	-	-	-	-	-	100	6.3
Other financial liabilities	-	-	-	-	-	-	-	-	524	524	0.0
Subordinated debentures	-	-	-	-	-	-	-	758	-	758	5.3
Due to related entities	6,539	3,555	554	500	-	125	-	-	648	11,921	4.9
Total financial liabilities	25,230	8,471	4,034	751	101	151	30	762	4,580	44,110	
Non-financial liabilities										52	
Total liabilities										44,162	
Financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	(579)	1,071	(3,899)	500	856	2,051	-	-	-	-	

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

Note 37 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.

	NZ Banking Group		NZ Branch	
	2006 $m	2005 $m	**2006 $m**	2005 $m
Receivable/(payable)				
Australian dollar	**19**	4	**19**	4
Great British pound	**1**	(3)	**1**	(3)
United States dollar	**(10)**	(30)	**(10)**	(30)
Other	**1**	-	**1**	-

Note 38 Capital adequacy

	2006	2005	Minimum Capital Adequacy Ratio Specified by APRA
	%	%	%
Overseas Banking Group			
Tier One Capital, expressed as a percentage of risk weighted exposures	**6.9**	7.2	4.0
Capital, expressed as a percentage of risk weighted exposures	**9.5**	9.7	8.0
Overseas Bank			
Tier One Capital, expressed as a percentage of risk weighted exposures	**6.3**	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	**9.3**	9.4	8.0

The Overseas Banking Group and the Overseas Bank 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 Banking Group and the Overseas Bank are required to hold minimum capital at least equal to that specified under the Basel framework.

The Overseas Banking Group and the Overseas Bank exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2006. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

Note 39 Derivative financial instruments

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements, whose values derive from the value of an underlying asset, reference rate or index.

A *forward* contract obliges one party to buy and the other to sell, a specific underlying product or instrument at a specific price, amount, and date in the future. A *forward rate agreement (FRA)* is an agreement between two parties establishing a contract interest rate on a notional principal over a specified period commencing at a specific future date.

A *futures* contract is similar to a forward contract. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures are exchange traded.

A *swap* transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates.

An *option* contract gives the option holder the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The writer of the option contract is obliged to perform if the holder exercises the right contained therein.

Certain leveraged derivatives include an explicit leverage factor in the payment formula. The leverage factor has the effect of multiplying the notional amount such that the impact of changes in the underlying price or prices may be greater than that indicated by the notional amount alone. The NZ Banking Group has no significant exposure to those types of transactions.

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

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

The NZ Banking Group uses derivatives in two distinct capacities; as a trader and as an end-user as part of its asset and liability management activities.

Trading

As a trader, the NZ Banking Group's primary objective is to derive income from the sale of derivatives to meet the NZ Banking Group's customers needs. In addition to the sale of derivatives to customers, the NZ Banking Group also undertakes market making and discretionary trading activities. This process ensures liquidity in the key markets in which the NZ Banking Group operates. The NZ Banking Group also trades on its own account to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. These activities, known as proprietary trading, represent a limited part of the NZ Banking Group's derivative activities.

Hedging

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

(i) Fair value hedges

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

Note 39 Derivative financial instruments (continued)

(ii) Cash flow hedges

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 30 September 2006 as a result of highly probable cash flows no longer expected to occur.

All derivatives for the NZ Banking Group are held in the NZ Branch. Derivatives with related parties are included in Due from and Due to related entities.

	NZ Banking Group and NZ Branch		
		2006	
	Notional $m	Fair Value (Asset) $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Futures	10,633	-	-
Forwards	26,252	6	(8)
Swaps	123,348	601	(665)
Options	4,922	1	(4)
Foreign exchange derivatives			
Forwards	19,182	264	(394)
Swaps	21,925	418	(484)
Total held for trading derivatives	206,262	1,290	(1,555)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	4,735	24	(15)
Foreign exchange derivatives			
Swaps	637	47	-
Total fair value hedging derivatives	5,372	71	(15)
Cash flow hedging derivatives			
Interest rate derivatives			
Futures	939	4	-
Swaps	815	7	(6)
Total cash flow hedging derivatives	1,754	11	(6)
Total derivatives	213,388	1,372	(1,576)

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

	NZ Banking Group and NZ Branch							
				2006				
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	39	-	-	27	-	-	-	34
Cash outflows (liabilities)	-	-	-	93	1	-	4	2

Note 39 Derivative financial instruments (continued)

	NZ Banking Group and NZ Branch		
		2005	
	Notional $m	Fair Value (Asset) $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Futures	11,405	-	-
Forwards	7,625	4	(3)
Swaps	94,900	334	(523)
Options	4,871	4	-
Foreign exchange derivatives			
Forwards	17,481	217	(272)
Swaps	11,207	401	(353)
Total held for trading derivatives	147,489	960	(1,151)
Hedging derivatives			
Interest rate derivatives			
Futures	4,012	-	(2)
Total hedging derivatives	4,012	-	(2)
Total derivatives	151,501	960	(1,153)

Note 40 Segment information

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

The basis of segment reporting reflects the management of the business within the Overseas Banking Group, rather than the legal structure of the NZ Banking Group. The business segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each business segment. Intersegment pricing is determined on an arm's length basis.

Primary reporting – business segments

The business segments are defined by the customers they service and the services they provide. The New Zealand Retail segment is responsible for servicing and product development for consumer and smaller to medium-sized customers within New Zealand, and includes the majority of the Corporate Head Office functions that exist within New Zealand. The Institutional Banking segment represents primarily corporations and institutional customers based in New Zealand, and also provides financial markets services to middle-market business banking customers in New Zealand. The Other Banking segment includes the results of Group Capital, Structured Finance and Group Treasury activities as well as activities that cannot be directly attributable to any other segment within the New Zealand geographical area.

	NZ Banking Group			
	2006			
	New Zealand Retail $m	Institutional Banking $m	Other Banking $m	Total $m
Revenue from external customers	3,350	520	447	4,317
Internal revenue	146	7	(153)	-
Total segment revenue	3,496	527	294	4,317
Interest income	2,929	425	439	3,793
Interest expense	(1,124)	(146)	(1,332)	(2,602)
Internal charges[1]	(859)	(223)	1,059	(23)
Net interest income	946	56	166	1,168
Net non-interest income	422	95	8	525
Internal charges[1]	4	2	(7)	(1)
Net operating income	1,372	153	167	1,692
Depreciation and amortisation	(57)	-	(2)	(59)
Other operating expenses	(602)	(23)	(3)	(628)
Internal charges[1]	1	(13)	-	(12)
Total operating expenses	(658)	(36)	(5)	(699)
Impairment losses on loans and advances	(49)	3	(7)	(53)
Reversals of impairment losses on loans	18	-	4	22
Profit before income tax expense	683	120	159	962
Income tax expense				(319)
Profit attributable to minority interests				(4)
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group				639
Total external assets excluding tax	38,573	7,290	4,689	50,552
Intragroup assets				1,489
Tax assets				95
Total assets				52,136
Total external liabilities excluding tax	22,028	3,915	18,636	44,579
Intragroup liabilities				4,116
Tax liabilities				24
Total liabilities				48,719
Acquisition of property, plant and equipment and intangible assets	91	-	-	91

1 Internal charges are eliminated at the ultimate parent level.

Note 40 Segment information (continued)

	NZ Banking Group			
	2005			
	New Zealand Retail $m	Institutional Banking $m	Other Banking $m	Total $m
Revenue from external customers	2,958	453	279	3,690
Internal revenue	54	15	(133)	(64)
Total segment revenue	3,012	468	146	3,626
Interest income	2,486	352	224	3,062
Interest expense	(934)	(248)	(836)	(2,018)
Internal charges[1]	(631)	(68)	717	18
Net interest income	921	36	105	1,062
Net non-interest income	472	101	55	628
Internal charges[1]	1	(1)	(83)	(83)
Net operating income	1,394	136	77	1,607
Depreciation and amortisation	(68)	-	(1)	(69)
Other operating expenses	(556)	(21)	10	(567)
Internal charges[1]	(25)	(13)	(6)	(44)
Total operating expenses	(649)	(34)	3	(680)
Impairment losses on loans	(62)	(2)	(5)	(69)
Reversals of impairment losses on loans	25	-	-	25
Profit before income tax expense	708	100	75	883
Income tax expense				(216)
Profit attributable to minority interests				(5)
Profit after income tax expense attributable to head office account and equity holders of NZ Banking Group				662
Total external assets excluding tax	33,916	7,285	3,142	44,343
Intragroup assets				-
Tax assets				993
Total assets	33,916	7,285	3,142	45,336
Total external liabilities excluding tax	20,076	3,430	17,262	40,768
Intragroup liabilities				-
Tax liabilities				602
Total liabilities	20,076	3,430	17,262	41,370
Acquisition of property, plant and equipment and intangible assets	74	-	-	74

1 Internal charges are eliminated at the ultimate parent level.

Secondary reporting - geographic segments

The NZ Banking Group operates predominantly within New Zealand.

Note 41 Superannuation commitments

The NZ Banking Group has a defined contribution and a defined benefit superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the respective schemes, are made by the NZ Banking Group as required. Actuarial valuations of the schemes are undertaken annually, with the last full valuation being undertaken as at 30 September 2006. Contributions to the defined benefit scheme is at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments.

The NZ Banking Group's defined benefit superannuation scheme provides lump sum and superannuation benefits. The NZ Banking Group's contributions for the year ended 30 September 2006 were $1.1 million (30 September 2005 $1.1 million).

The NZ Banking Group has no material obligations in respect of post retirement benefits other than pensions.

The amount recognised in the balance sheet arising from the Group's obligations in respect of its defined benefit superannuation scheme was as follows:

	NZ Banking Group and NZ Branch	
	2006 $m	2005 $m
Present value of wholly unfunded obligations	**131**	140
Fair value of plan assets	**(113)**	(109)
Present value of net obligations	**18**	31
Actuarial gains not recognised in the balance sheet	**11**	2
Net liability recognised in the balance sheet	**29**	33
Represented by the following amounts in the balance sheet:		
Liabilities	**29**	33
Net liability recognised in the balance sheet	**29**	33

The fair value of plan assets include 90-day bank bills issued by, and cash balances held with the NZ Banking Group with a fair value of $9.5 million (30 September 2005 $26.8 million).

	NZ Banking Group and NZ Branch	
	2006 $m	2005 $m
Movements in the net asset recognised in the balance sheet		
Net asset at beginning of the year	**33**	34
Net expense recognised in the income statement	**(1)**	-
Contributions paid	**(3)**	(1)
Net asset recognised at end of the year	**29**	33
Return on plan assets:		
Expected return on plan assets	**7**	7
Actuarial gains on plan assets	**7**	3
Actual return on plan assets	**14**	10

Expense recognised in the income statement

The amounts recognised in salaries and other staff expenses in the income statement as operating expenses for the year in respect of the defined benefit superannuation scheme were as follows:

	NZ Banking Group and NZ Branch	
	2006 $m	2005 $m
Current service cost	**1**	1
Interest cost	**5**	6
Expected return on plan assets	**(7)**	(7)
Net defined benefit expense	**1**	-

Note 41 Superannuation commitments (continued)

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

	NZ Banking Group and NZ Branch	
	2006 %	2005 %
Discount rate at beginning of the year	**3.9**	3.8
Expected rate of return on plan assets at beginning of the year	**5.3**	6.6
Future salary increases	**3.5**	3.5
Other material actuarial assumptions - pension increases	**2.5**	2.5

Note 42 Auditors' remuneration

	NZ Banking Group		NZ Branch	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Auditor of the parent entity				
Audit services	**1,153**	938	**1,153**	911
Other services:				
Further assurance services	**449**	89	**449**	15
Tax services	**111**	216	**111**	216
Total remuneration for audit and non-audit services	**1,713**	1,243	**1,713**	1,142

It is the NZ Banking Group's policy to employ the external auditors on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with the NZ Banking Group is important. As described above, these assignments relate principally to regulatory reporting, taxation services and other assurance services. The amounts disclosed above are GST inclusive.

Note 43 Key management disclosures

Key management compensation

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

	NZ Banking Group	
	2006 $'000	2005 $'000
Salaries and other short term benefits	**5,899**	4,726
Post employment benefits	**567**	507
Other termination benefits	**972**	92
Share-based payment[1]	**2,158**	2,096
Total key management compensation	**9,596**	7,421

[1] These amounts relate to grants in January for the previous financial year.

The Directors have not received any remuneration from the NZ Banking Group or the NZ Branch. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2006 Annual Financial Report.

Loans and deposits with key management personnel

All loans and deposits are made in the ordinary course of business of NZ Banking Group, on an arm's length basis and on normal commercial terms and conditions. Loans are on terms of repayment that range between variable, fixed rate up to five years and interest only loans, all of which are in accordance with the NZ Banking Group's lending policies.

No provisions have been recognised as at 30 September 2006 in respect of loans given to key management and their related parties (30 September 2005 nil).

Other related party transactions

All other transactions with key management personnel, their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

Note 44 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 30 September 2006, the NZ Banking Group had securitised assets amounting to $643 million, all having been sold by the NZ Banking Group to the Westpac Home Loan Trust (HLT) and the Westpac Mortgage Investment Fund (MIF) via the HLT.

Name of Trust/Fund	**Securitised Assets 2006 $m**	Securitised Assets 2005 $m
Westpac Home Loan Trust and Westpac Mortgage Investment Fund	**643**	589
WST - NZ Series WLIS # 6 Trust	-	64
WST - NZ Warehouse Trust # 1	-	38
Total	**643**	691

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 Branch. 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. 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.

During August 2006, all $53 million of securitised assets which were previously held by WST - NZ Series WLIS # 6 Trust (WST Trust) were sold back to the NZ Banking Group. In September 2006, all securitised assets previously held by WST - NZ Warehouse Trust # 1 (Warehouse Trust), to the value of $28 million, were also sold back to the NZ Banking Group.

The NZ Banking Group receives fees for various services provided to the HLT and the MIF on an arm's length basis, including servicing fees and management fees, and also received similar fees in relation to the WST Trust and the Warehouse Trust until the assets of those trusts were sold. 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 HLT and the MIF. Westpac Securitisation Administration Limited performs certain custodial services, for which it also receives fees.

The units issued by the 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, Westpac New Zealand Limited nor the Overseas Banking Group in any way stands behind the capital value 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, NZ Branch and Westpac New Zealand Limited 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 units issued by the HLT or the MIF and neither intends 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 Branch 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 Branch 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 HLT.

As set out on page 7 of this General Disclosure Statement, the consumer and banking operations of the NZ Branch vested in Westpac New Zealand Limited on 1 November 2006 and Westpac New Zealand Limited commenced trading as a registered bank on that date. The home loan mortgages held by the NZ Banking Group vested in Westpac New Zealand Limited from that date and any additional home loan mortgages will be purchased by the HLT from Westpac New Zealand Limited in the same manner and on the same terms as in respect of the NZ Banking Group.

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.

Note 44 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

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

	2006 $m	2005 $m
Private and priority	**556**	280
Retirement plans	**338**	345
Retail unit trusts	**1,484**	1,380
Wholesale unit trusts	**484**	408
Total funds under management	**2,862**	2,413

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

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, there is no arrangement in place to ensure that difficulties arising from the activities identified above will not impact adversely on the NZ Banking Group.

Marketing and distribution of insurance products

Westpac 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 Westpac Banking Corporation does not guarantee the obligations of, or any products issued by, those companies.

Note 45 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:

	2006 $m	2005 $m
Total assets	**78**	72

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

Note 46 Explanation of transition to NZ IFRS

This is the fourth period that the NZ Banking Group has presented its financial statements in accordance with NZ IFRS. The last financial statements under NZ FRS were for the year ended 30 September 2005, and except as detailed in Note 1, the date of transition to NZ IFRS was 1 October 2004.

Comparative information

The opening balance sheet and the comparative figures for the year ended 30 September 2005 have been presented under NZ IFRS, except that the NZ Banking Group has taken advantage of the exemptions available under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and excludes the impact of NZ IAS 32 *Financial Instruments: Presentation and Disclosure* and NZ IAS 39 *Financial Instruments: Recognition and Measurement.* The main adjustments needed to make the comparative information conform to NZ IAS 32 and NZ IAS 39 are detailed below.

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

The NZ Branch has issued convertible debentures relating to Westpac Fixed Interest Resettable Trust Securities. Under previous NZ GAAP these were classified as equity. Had NZ IFRS been applied during the year ended 30 September 2005 then these would have been reclassified as debt and distributions on them treated as an Interest expense.

Note 46 Explanation of transition to NZ IFRS (continued)

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

Under NZ IFRS certain fees received and expenses incurred in the origination of loans are deferred on the balance sheet and subsequently recognised as a yield adjustment to Interest income. This would have affected the carrying value of loans, the classification of income and profit.

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

Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, are carried at fair value on the balance sheet. Had NZ IFRS been applied during the year ended 30 September 2005 then new items would have appeared in the balance sheet for derivative assets, being the fair value of derivative financial instruments which have a positive fair value and derivative liabilities, being the fair value of derivative financial instruments which have a negative fair value.

NZ IFRS allows fair value hedge accounting and cash flow hedge accounting. These can only be applied when documentation requirements and effectiveness tests are met. Ineffectiveness can 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. Had NZ IFRS been applied then a Cash flow hedge reserve being the reserve associated with cash flow hedge accounting would have been created. This would also have introduced some volatility to the income statement.

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

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 would have been raised for losses that have already been incurred on loans that are known to be impaired. The estimated losses on these impaired loans would have been based on expected future cash flows discounted to their present value and as this discount unwinds, interest would have been recognised in the income statement. Loans not found to be individually impaired would have been collectively assessed for impairment in pools of similar assets with similar risk characteristics. The size of the provision would have been estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience would be adjusted based on current observable data. This would have led to a reduction in the amounts of the NZ Banking Group credit provisions.

Taxation (NZ IAS 12 Income Taxes)

Each of the changes detailed above would have been shown after applying the impact of taxation.

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004

		NZ Banking Group			
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP 30 September 2004 $m	Presentation Changes 30 September 2004 $m	Recognition and Measurement Changes 30 September 2004 $m	Opening NZ IFRS 1 October 2004 $m
Assets					
Cash[1]		101	88	-	189
Due from other financial institutions[1]	ix	354	(88)	457	723
Derivative financial instruments	i	-	987	-	987
Other trading securities	ii	2,653	158	-	2,811
Loans	x	36,049	-	(647)	35,402
Life insurance assets	iii	-	72	-	72
Due from related entities		750	-	-	750
Goodwill and other intangible assets	iv, xi	564	99	(17)	646
Property, plant and equipment	iv	212	(99)	-	113
Income tax receivable	v	-	40	-	40
Deferred tax assets	v, xii	-	115	73	188
Other assets	xiii	1,808	(1,372)	(109)	327
Total assets		42,491	-	(243)	42,248
Less:					
Liabilities					
Due to other financial institutions		1,071	-	-	1,071
Deposits	vi	25,325	(25,325)	-	-
Deposits at fair value	vi	-	3,311	-	3,311
Deposits at amortised cost	vi, xiv	-	22,014	(5)	22,009
Derivative financial instruments	i	-	1,659	-	1,659
Other trading liabilities	vii	-	184	-	184
Debt issues	xv	7,772	-	189	7,961
Current tax liabilities	v, xvi	-	33	(33)	-
Deferred tax liabilities	v	-	6	-	6
Provisions	viii	-	41	2	43
Other liabilities	xvii	2,589	(1,923)	45	711
Total liabilities excluding subordinated debentures and due to related entities		36,757	-	198	36,955
Subordinated debentures		785	-	-	785
Total liabilities excluding due to related entities		37,542	-	198	37,740
Due to related entities		522	-	276	798
Total liabilities		38,064	-	474	38,538
Net assets		4,427	-	(717)	3,710
Represented by:					
Shareholders' equity					
Ordinary share capital		132	-	-	132
Branch capital	xviii	-	-	6	6
Retained profits	xix	1,065	-	(82)	983
Convertible debentures	xx	1,994	-	9	2,003
Total NZ Banking Group equity		3,191	-	(67)	3,124
NZ Class shares		579	-	-	579
Other minority interests	xxi	657	-	(650)	7
Total equity		4,427	-	(717)	3,710

[1] Nostro account balances have been reclassified from due from financial institutions to cash.

For the accompanying notes to the reconciliation of equity for the NZ Banking Group as at 1 October 2004 refer to pages 76 and 77.

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for the NZ Banking Group as at 1 October 2004

Presentation changes:

i. Derivative financial instruments are shown on the face on the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading securities are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.

v. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

viii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.

x. Loans
(a) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. The derecognition of these entities has resulted in a decrease in Loans of $660 million as at 1 October 2004.
(b) The consolidation of special purpose vehicles (refer ix.) has resulted in an increase of $13 million as at 1 October 2004.

xi. Goodwill and other intangible assets
Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill as at 1 October 2004 was adjusted by $17 million.

xii. Deferred tax assets and Deferred tax liabilities
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of $17 million as at 1 October 2004.

xiii. Other assets
(a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of $7 million as at 1 October 2004.
(b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease in assets of $108 million as at 1 October 2004.
(c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $8 million as at 1 October 2004.

xiv. Deposits at amortised cost
The derecognition of a number of entities (refer x. (a)) resulted in a decrease of $5 million as at 1 October 2004.

xv. Debt issues
Refer ix.

xvi. Current tax liabilities
Refer x. (a).

xvii. Other liabilities
(a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of $12 million as at 1 October 2004.
(b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease of $27 million as at 1 October 2004.
(c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of $51 million as at 1 October 2004.
(d) Under 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. This has resulted in an increase of $9 million as at 1 October 2004.

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for the NZ Banking Group as at 1 October 2004 (continued)

xviii. Branch capital

Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Branch is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xix. Retained profits

(a) Goodwill adjustments (refer xi.) resulted in a decrease of $17 million as at 1 October 2004.

(b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease of $7 million as at 1 October 2004.

(c) The adjustment to defined benefit superannuation schemes (refer xii (b)) resulted in a decrease of $42 million as at 1 October 2004.

(d) Deferred fees (refer xvii. (d)) resulted in a decrease of $6 million as at 1 October 2004.

(e) NZ IFRS tax adjustments resulted in a decrease of $1 million as at 1 October 2004.

(f) Other NZ IFRS adjustments resulted in a decrease of $9 million as at 1 October 2004.

xx. Convertible debentures

The adjustments relate to the tax effect on deal costs (refer xii. (a)).

xxi. Other minority interests

Refer x. (a).

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005 and 1 October 2005

NZ Banking Group

			Effect of Transition to NZ IFRS					
	Note	Previous NZ GAAP 30 September 2005 $m	Presentation Changes 30 September 2005 $m	Recognition and Measurement Changes 30 September 2005 $m	Restated NZ IFRS 30 September 2005 $m	Note	Adoption of NZ IAS 32/39 1 October 2005 $m	Opening NZ IFRS 1 October 2005 $m
Assets								
Cash[1]		96	209	-	305		-	305
Due from other financial institutions[1]	ix	316	(209)	45	152		-	152
Derivative financial instruments	i	-	960	-	960	xx	(66)	894
Other trading securities	ii	3,558	569	-	4,127		-	4,127
Loans	x	37,094	-	192	37,286	xxi	123	37,409
Life insurance assets	iii	-	64	-	64		-	64
Due from related entities		993	-	-	993	xxii	125	1,118
Goodwill and other intangible assets	iv, xi	517	106	30	653		-	653
Property, plant and equipment	iv	213	(106)	-	107		-	107
Income tax receivable	v	-	46	-	46	xxiii	9	55
Deferred tax assets	v, xii	-	118	25	143	xxiii	(47)	96
Other assets	xiii	2,263	(1,757)	(6)	500	xxiv	(64)	436
Total assets		45,050	-	286	45,336		80	45,416
Less:								
Liabilities								
Due to other financial institutions		1,745	-	-	1,745		-	1,745
Deposits	vi	27,564	(27,564)	-	-		-	-
Deposits at fair value	vi	-	3,847	-	3,847		-	3,847
Deposits at amortised cost	vi	-	23,717	-	23,717		-	23,717
Derivative financial instruments	i	-	1,153	-	1,153	xx	(66)	1,087
Other trading liabilities	vii	-	345	-	345		-	345
Debt issues	xiv	8,308	-	245	8,553	xxv	19	8,572
Deferred tax liabilities	v, xii	-	9	-	9		-	9
Provisions	viii	-	43	2	45	xxvi	16	61
Other liabilities	xv	2,095	(1,550)	51	596	xxvii	(33)	563
Total liabilities excluding subordinated debentures and due to related entities		39,712	-	298	40,010		(64)	39,946
Subordinated debentures		758	-	-	758	xix	703	1,461
Total liabilities excluding due to related entities		40,470	-	298	40,768		639	41,407
Due to related entities		602	-	-	602	xxii	95	697
Total liabilities		41,072	-	298	41,370		734	42,104
Net assets		3,978	-	(12)	3,966		(654)	3,312
Represented by:								
Shareholders' equity								
Ordinary share capital		132	-	-	132		-	132
Branch capital	xvi	698	-	10	708		-	708
Cash flow hedge reserve		-	-	-	-	xviii	12	12
Retained profits	xvii	1,142	-	(31)	1,111	xxix	53	1,164
Convertible debentures	xviii	1,994	-	9	2,003	xix	(719)	1,284
Total NZ Banking Group equity		3,966	-	(12)	3,954		(654)	3,300
Other minority interests		12	-	-	12		-	12
Total equity		3,978	-	(12)	3,966		(654)	3,312

[1] Nostro account balances have been reclassified from due from financial institutions to cash.

For the accompanying notes to the reconciliation of equity for the NZ Banking Group as at 30 September 2005 and 1 October 2005 refer to pages 79 and 80.

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for the NZ Banking Group as at 30 September 2005 and 1 October 2005

Presentation changes:

i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading securities are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.

iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.

v. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

viii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.

x. Loans
Refer ix.

xi. Goodwill and other intangible assets
(a) Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill as at 1 October 2004 was adjusted by $17 million.
(b) Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase of $47 million.

xii. Deferred tax assets and Deferred tax liabilities
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of $17 million.

xiii. Other assets
(a) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $7 million.
(b) Other NZ IFRS adjustments have resulted in an increase of $1 million.

xiv. Debt issues
Refer ix.

xv. Other liabilities
(a) The consolidation of special purpose vehicles (refer ix.) resulted in a decrease of $7 million.
(b) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of $50 million.
(c) Under 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. This has resulted in an increase of $9 million.
(d) Other NZ IFRS adjustments have resulted in a decrease of $1 million.

xvi. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Branch is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xvii. Retained profits
(a) Goodwill adjustments (refer xi.) resulted in an increase of $30 million.
(b) The adjustment to defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of $42 million.
(c) Deferred fees (refer xv. (c)) resulted in a decrease of $6 million.
(d) NZ IFRS tax adjustments resulted in a decrease of $2 million.
(e) Other NZ IFRS adjustments resulted in a decrease of $11 million.

xviii. Convertible debentures
Refer xii. (a).

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the restatement for the NZ Banking Group on adoption of NZ IAS 32/39 with effect from 1 October 2005

Presentation changes:

xix. Hybrid instruments relating to Westpac Fixed Interest Resettable Trust Securities have been reclassified from equity to debt. *For further details see explanation on page 73 regarding Hybrid Instruments.*

Measurement changes:

xx. Derivative financial instruments
For further details see explanation on page 74 regarding Hedge Accounting.

xxi. Loans
- (a) Provisions for loan impairment are based on objective evidence of impairment. This resulted in an increase of $169 million. *For further details see explanation on page 74 regarding Loan Impairment.*
- (b) Fee income and direct costs arising at loan origination are deferred and amortised to Interest income over the life of the loan using the effective yield method. This resulted in a decrease of $46 million. *For further details see explanation on page 74 regarding Effective Yield.*

xxii. Due from and Due to related entities
The movements are due to related entity derivative financial instruments (refer xix.).

xxiii. Income tax receivable and Deferred tax assets
The tax effect of the above measurement changes have been recognised.

xxiv. Other assets
- (a) Deferred fees (*for further details see explanation on page 74 regarding Effective Yield)* resulted in decrease of $48 million.
- (b) Swap fees previously amortised have now been written off. This resulted in a decrease of $15 million.
- (c) Other NZ IFRS adjustments have resulted in a decrease of $1 million.

xxv. Debt issues
For further details see explanation on page 74 regarding Hedge Accounting.

xxvi. Provisions
For further details see explanation on page 74 regarding Loan Impairment.

xxvii. Other liabilities
For further details see explanation on page 74 regarding Hedge Accounting.

xxviii. Cash flow hedge reserve
For further details see explanation on page 74 regarding Hedge Accounting.

xxix. Retained profits
- (a) Swap fees (refer xxiv. (b)) resulted in a decrease of $15 million.
- (b) Loan adjustments (refer xxi.) resulted in an increase of $71 million.
- (c) Deferred fees (refer xv. (c)) resulted in a decrease of $33 million.
- (d) Derivatives (*for further details see explanation on page 74 regarding Hedge Accounting)* resulted in a decrease of $47 million.
- (e) Convertible debentures *(for further details see explanation on page 73 regarding Hybrid Instruments)* resulted in an increase of $39 million.
- (f) NZ IFRS tax adjustments resulted in an increase of $32 million.
- (g) Other NZ IFRS adjustments resulted in an increase of $6 million.

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004

		NZ Branch			
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP 30 September 2004 $m	Presentation Changes 30 September 2004 $m	Recognition and Measurement Changes 30 September 2004 $m	Opening NZ IFRS 1 October 2004 $m
Assets					
Cash[1]		101	88	-	189
Due from other financial institutions[1]		353	(88)	-	265
Derivative financial instruments	i	-	986	-	986
Other trading securities	ii	2,653	158	-	2,811
Loans		31,448	-	-	31,448
Due from related entities		4,932	-	-	4,932
Investments in related entities		1,777	-	-	1,777
Goodwill and other intangible assets	iii	477	99	-	576
Property, plant and equipment	iii	129	(99)	-	30
Income tax receivable	iv	-	24	-	24
Deferred tax assets	iv, ix	-	104	26	130
Other assets	x	1,543	(1,272)	(8)	263
Total assets		43,413	-	18	43,431
Less:					
Liabilities					
Due to other financial institutions		1,071	-	-	1,071
Deposits	v	25,320	(25,320)	-	-
Deposits at fair value	v	-	3,311	-	3,311
Deposits at amortised cost	v	-	22,009	-	22,009
Derivative financial instruments	i	-	1,659	-	1,659
Other trading liabilities	vi	-	184	-	184
Debt issues		200	-	-	200
Deferred tax liabilities	iv	-	3	-	3
Provisions	vii	-	40	2	42
Other liabilities	xi	2,416	(1,886)	56	586
Total liabilities excluding subordinated debentures and due to related entities		29,007	-	58	29,065
Subordinated debentures		785	-	-	785
Total liabilities excluding due to related entities		29,792	-	58	29,850
Due to related entities		11,197	-	-	11,197
Total liabilities		40,989	-	58	41,047
Net assets		2,424	-	(40)	2,384
Represented by:					
Shareholders' equity					
Branch capital	xii	-	-	6	6
Retained profits	xiii	430	-	(55)	375
Convertible debentures	xiv	1,994	-	9	2,003
Total equity		2,424	-	(40)	2,384

[1] Nostro account balances have been reclassified from due from financial institutions to cash.

For the accompanying notes to the reconciliation of equity for the NZ Branch as at 1 October 2004 refer to page 82.

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity of the NZ Branch as at 1 October 2004

Presentation changes:

i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading securities are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.

iv. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

v. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vi. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

vii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

viii. Goodwill and other intangible assets
Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS.

ix. Deferred tax assets and Deferred tax liabilities
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of $17 million as at 1 October 2004.

x. Other assets
The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of $8 million as at 1 October 2004.

xi. Other liabilities
(a) The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in an increase of $51 million as at 1 October 2004.
(b) Under 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. This has resulted in an increase of $8 million as at 1 October 2004.
(c) Other NZ IFRS adjustments resulted in a decrease of $3 million as at 1 October 2004.

xii. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for the performance options and performance share rights is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in equity. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xiii. Retained profits
(a) The adjustment to defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of $42 million as at 1 October 2004.
(b) Deferred fees (refer xi. (b)) resulted in a decrease of $5 million as at 1 October 2004.
(c) NZ IFRS tax adjustments resulted in a decrease of $3 million as at 1 October 2004.
(d) Other NZ IFRS adjustments resulted in a decrease of $5 million as at 1 October 2004.

xiv. Convertible debentures
The adjustments relate to the tax effect on deal costs (refer ix. (a)).

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005 and 1 October 2005

NZ Branch

	Note	Previous NZ GAAP 30 September 2005 $m	Effect of Transition to NZ IFRS: Presentation Changes 30 September 2005 $m	Effect of Transition to NZ IFRS: Recognition and Measurement Changes 30 September 2005 $m	Restated NZ IFRS 30 September 2005 $m	Note	Adoption of NZ IAS 32/39 1 October 2005 $m	Opening NZ IFRS 1 October 2005 $m
Assets								
Cash[1]		96	209	-	305		-	305
Due from other financial institutions[1]		315	(209)	-	106		-	106
Derivative financial instruments	i	-	960	-	960	xvi	(66)	894
Other trading securities	ii	3,558	569	-	4,127		-	4,127
Loans		36,795	-	-	36,795	xvii	119	36,914
Due from related entities		1,944	-	-	1,944	xviii	125	2,069
Investments in related entities		1,777	-	-	1,777		-	1,777
Goodwill and other intangible assets	iii, viii	437	106	40	583		-	583
Property, plant and equipment	iii	136	(106)	-	30		-	30
Income tax receivable	iv	-	20	-	20	xix	9	29
Deferred tax assets	iv, ix	-	106	27	133	xix	(44)	89
Other assets	x	2,137	(1,655)	(7)	475	xx	(64)	411
Total assets		47,195	-	60	47,255		79	47,334
Less:								
Liabilities								
Due to other financial institutions		1,745	-	-	1,745		-	1,745
Deposits	v	27,564	(27,564)	-	-		-	-
Deposits at fair value	v	-	3,847	-	3,847		-	3,847
Deposits at amortised cost	v	-	23,717	-	23,717		-	23,717
Derivative financial instruments	i	-	1,153	-	1,153	xvi	(66)	1,087
Other trading liabilities	vi	-	345	-	345		-	345
Debt issues		100	-	-	100		-	100
Deferred tax liabilities	iv	-	9	-	9		-	9
Provisions	vii	-	41	2	43	xxi	16	59
Other liabilities	xi	2,013	(1,548)	59	524		-	524
Total liabilities excluding subordinated debentures and due to related entities		31,422	-	61	31,483		(50)	31,433
Subordinated debentures		758	-	-	758	xv	703	1,461
Total liabilities excluding due to related entities		32,180	-	61	32,241		653	32,894
Due to related entities		11,921	-	-	11,921	xviii	83	12,004
Total liabilities		44,101	-	61	44,162		736	44,898
Net assets		3,094	-	(1)	3,093		(657)	2,436
Represented by:								
Shareholders' equity								
Branch capital	xii	698	-	10	708		-	708
Cash flow hedge reserve		-	-	-	-	xxii	12	12
Retained profits	xiii	402	-	(20)	382	xxiii	50	432
Convertible debentures	xiv	1,994	-	9	2,003	xv	(719)	1,284
Total equity		3,094	-	(1)	3,093		(657)	2,436

1 Nostro account balances have been reclassified from due from financial institutions to cash.

For the accompanying notes to the reconciliation of equity of the NZ Branch as at 30 September 2005 and 1 October 2005 refer to pages 84 and 85.

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity of the NZ Branch as at 30 September 2005 and 1 October 2005

Presentation changes:

i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

ii. Other trading securities are shown on the face of the balance sheet and have been reclassified from Other assets.

iii. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets

iv. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.

v. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.

vi. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.

vii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

viii. Goodwill and other intangible assets
Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase of $40 million.

ix. Deferred tax assets and Deferred tax liabilities
(a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
(b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of $17 million.

x. Other assets
The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of $7 million.

xi. Other liabilities
(a) The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in an increase of $50 million.
(b) Under 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. This has resulted in an increase of $9 million.

xii. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for the performance options and performance share rights is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in equity. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xiii. Retained profits
(a) Goodwill adjustments (refer viii.) resulted in an increase of $40 million.
(b) The adjustment to defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of $42 million.
(c) Deferred fees (refer xi. (b)) resulted in a decrease of $6 million.
(d) Other NZ IFRS adjustments resulted in a decrease of $12 million.

xiv. Convertible debentures
Refer ix. (a).

Note 46 Explanation of transition to NZ IFRS (continued)

Notes to the restatement on adoption of NZ IAS 32/39 for the NZ Branch with effect from 1 October 2005

Presentation changes:

xv. Hybrid instruments relating to Westpac Fixed Interest Resettable Trust Securities have been reclassified from equity to debt. *For further details see explanation on page 73 regarding Hybrid Instruments.*

Measurement changes:

xvi. Derivative financial instruments
For further details see explanation on page 74 regarding Hedge Accounting.

xvii. Loans

(a) Provisions for loan impairment are based on objective evidence of impairment. This resulted in an increase of $170 million. *For further details see explanation on page 74 regarding Loan Impairment.*

(b) Fee income and direct costs arising at loan origination are deferred and amortised to interest income over the life of the loan using the effective yield method. This resulted in a decrease of $51 million. *For further details see explanation on page 74 regarding Effective Yield.*

xviii. Due from and Due to related entities
The movements are due to related entity derivative financial instruments (refer xvi.).

xix. Income tax receivable and Deferred tax assets
The tax effect of the above measurement changes have been recognised.

xx. Other assets

(a) Deferred fees (*for further details see explanation on page 74 regarding Effective Yield)* resulted in a decrease of $51 million.

(b) Swap fees previously amortised have now been written off. This resulted in a decrease of $13 million.

xxi. Provisions
For further details see explanation on page 74 regarding Loan Impairment.

xxii. Cash flow hedge reserve
For further details see explanation on page 74 regarding Hedge Accounting.

xxiii. Retained profits

(a) Swap fees (refer xx. (b)) resulted in a decrease of $13 million.

(b) Loan adjustments (refer xvii.) resulted in an increase of $67 million.

(c) Deferred fees (refer xi. (b)) resulted in a decrease of $39 million.

(d) Derivatives (*for further details see explanation on page 74 regarding Hedge Accounting)* resulted in a decrease of $27 million.

(e) Convertible debentures (*for further details see explanation on page 73 regarding Hybrid Instruments)* resulted in an increase of $39 million.

(f) NZ IFRS tax adjustments resulted in an increase of $33 million.

(g) Other NZ IFRS adjustments resulted in a decrease of $10 million.

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of profit after income tax expense

		NZ Banking Group			
			Year Ended 30 September 2005		
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Interest income	i, iii	2,986	147	(52)	3,081
Interest expense	i, iv	(1,892)	(99)	(28)	(2,019)
Net interest income	i	1,094	48	(80)	1,062
Non-interest income:	ii	593	(593)	-	-
Fees and commissions	ii	-	439	-	439
Wealth management revenue	ii	-	66	-	66
Trading income	i, ii	-	28	-	28
Other non-interest income	ii	-	12	-	12
Total non-interest income		593	(48)	-	545
Net operating income		1,687	-	(80)	1,607
Operating expenses	v	(726)	-	46	(680)
Impairment losses on loans		(44)	-	-	(44)
Profit for the year		917	-	(34)	883
Income tax expense	vi	(292)	-	76	(216)
Profit after income tax expense		625	-	42	667
Profit attributable to intragroup minority interests in subsidiary companies	vii	(14)	-	9	(5)
Profit after income tax expense attributable to equity holders of NZ Banking Group		611	-	51	662

For the accompanying notes to the reconciliation of profit after income tax expense for the NZ Banking Group for the year ended 30 September 2005 refer below.

Notes to the reconciliation of profit after income tax expense of the NZ Banking Group

Presentation changes:

i. Net interest income from financial markets has been reclassified from Trading income to Net interest income.

ii. These items are now shown on the face of the income statement and have been reclassified from Non-interest income.

Measurement changes:

iii. Interest income
   (a) Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase of $28 million for the year ended 30 September 2005.
   (b) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. This has resulted in a decrease of $80 million for the year ended 30 September 2005.

iv. Interest expense
   (a) The consolidation of a number of special purpose vehicles has resulted in an increase of $26 million for the year ended 30 September 2005 (refer iii. (a)).
   (b) Other NZ IFRS adjustments resulted in an increase for the year ended 30 September 2005 of $2 million.

v. Operating expenses
   (a) Under NZ IFRS goodwill acquired in business combinations is no longer amortised, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement, if it occurs. As a result, the goodwill previously amortised has been reversed from the income statement and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in a decrease to Operating expenses of $48 million for the year ended 30 September 2005.
   (b) Other NZ IFRS adjustments resulted in a decrease of $2 million for the year ended 30 September 2005.

vi. Income tax expense
   Tax has been adjusted for the above transactions.

vii. Minority interests
   Refer iii. (b).

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of profit after income tax expense

		NZ Branch			
		Year Ended 30 September 2005			
			Effect of Transition to NZ IFRS		
	Note	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Interest income	i	2,964	147	-	3,111
Interest expense	i, iii	(2,135)	(99)	(2)	(2,236)
Net interest income	i	829	48	(2)	875
Non-interest income:	ii	538	(538)	-	-
Fees and commissions	ii	-	439	1	440
Trading income	i, ii	-	28	-	28
Other non-interest income	ii	-	23	-	23
Total non-interest income		538	(48)	1	491
Net operating income		1,367	-	(1)	1,366
Operating expenses	iv	(782)	-	36	(746)
Impairment losses on loans		(44)	-	-	(44)
Profit for the year		541	-	35	576
Income tax expense		(129)	-	-	(129)
Profit after income tax expense		412	-	35	447

For the accompanying notes to the reconciliation of profit after income tax expense for the NZ Branch for the year ended 30 September 2005 refer below.

Notes to the reconciliation of profit after income tax expense of the NZ Branch

Presentation changes:

i. Net interest income from financial markets has been reclassified from Trading income to Net interest income.

ii. These items are now shown on the face of the income statement and have been reclassified from Non-interest income.

Measurement changes:

iii. Interest expense
Other NZ IFRS adjustments resulted in a decrease of $2 million for the year ended 30 September 2005.

iv. Operating expenses
(a) Under NZ IFRS goodwill acquired in business combinations is no longer amortised, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement, if it occurs. As a result, the goodwill previously amortised has been reversed from the income statement and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in a decrease to Operating expenses of $40 million for the year ended 30 September 2005.
(b) Other NZ IFRS adjustments resulted in an increase of $4 million for the year ended 30 September 2005.

Designation of financial assets and financial liabilities

All financial instruments, designated as fair value through profit or loss from 1 October 2005 were previously recorded at fair value. There were no changes in the carrying values of these instruments on adoption of NZ IAS 32/39.

Impairment of assets

No impairment losses were recognised on non-financial assets on transition to NZ IFRS.

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Banking Group			
	Year Ended 30 September 2005			
		Effect of Transition to NZ IFRS		
	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Cash flows from operating activities				
Interest received	3,009	147	(61)	3,095
Interest paid	(1,852)	(99)	(20)	(1,971)
Other non-interest income received	517	19	-	536
Net acquisition of other trading securities	(1,694)	378	-	(1,316)
Net acquisition of other trading liabilities	-	161	-	161
Net acquisition[1] of derivative financial instruments	-	(506)	-	(506)
Operating expenses paid	(613)	(45)	-	(658)
Income tax paid	(218)	-	96	(122)
Net cash flows from operating activities	(851)	55	15	(781)
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	67	-	412	479
Net loans advanced to customers	(5,277)	-	3,349	(1,928)
Net disposal of life insurance assets	-	6	-	6
Net increase in due from related entities	-	(893)	650	(243)
Disposal of related entities	4,178	-	(4,178)	-
Net increase in other assets	(139)	(69)	28	(180)
Purchase of capitalised computer software	-	(46)	-	(46)
Purchase of property, plant and equipment	(75)	47	-	(28)
Proceeds from disposal of property, plant and equipment	6	-	-	6
Net cash used in investing activities	(1,240)	(955)	261	(1,934)
Cash flows from financing activities				
Purchase of NZ Class shares - Treasury Stock	(1)	-	-	(1)
Redemption of NZ Class shares	(618)	-	-	(618)
Branch capital received	698	-	-	698
Net increase in due to other financial institutions - term	629	-	-	629
Net increase in deposits	2,244	-	-	2,244
Net proceeds from debt issues	536	-	56	592
Net decrease in due to related entities	(813)	893	(276)	(196)
Net decrease in other liabilities	(59)	7	(56)	(108)
Payment of dividends on convertible debentures	(159)	-	-	(159)
Payment of dividends on NZ Class shares	(54)	-	-	(54)
Remittance to the Overseas Bank	(333)	-	-	(333)
Net cash provided by financing activities	2,070	900	(276)	2,694
Net decrease in cash and cash equivalents	(21)	-	-	(21)
Cash and cash equivalents at beginning of the year	208	-	-	208
Cash and cash equivalents at end of the year	187	-	-	187
Cash and cash equivalents comprise				
Cash[1]	96	209	-	305
Due from other financial institutions - at call[1]	316	(209)	-	107
Due to other financial institutions - at call	(225)	-	-	(225)
Cash and cash equivalents at end of the year	187	-	-	187

[1] Nostro account balances have been reclassified from due from financial institutions to cash.

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of profit after income tax expense for the NZ Banking Group provided on pages 79 and 86.

Note 46 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Branch			
	Year Ended 30 September 2005			
		Effect of Transition to NZ IFRS		
	Previous NZ GAAP $m	Presentation Changes $m	Recognition and Measurement Changes $m	Restated NZ IFRS $m
Cash flows from operating activities				
Interest received	2,964	127	-	3,091
Interest paid	(2,111)	(100)	-	(2,211)
Other non-interest income received	460	12	-	472
Net acquisition of other trading securities	(1,695)	379	-	(1,316)
Net acquisition of other trading liabilities	-	161	-	161
Net acquisition of derivative financial instruments	-	(507)	-	(507)
Operating expenses paid	(695)	(38)	-	(733)
Income tax paid	(71)	-	-	(71)
Net cash flows from operating activities	(1,148)	34	-	(1,114)
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	67	-	-	67
Net loans advanced to customers	(5,391)	-	-	(5,391)
Net decrease in due from related entities	-	2,988	-	2,988
Net increase in other assets	(112)	(63)	-	(175)
Purchase of capitalised computer software	-	(46)	-	(46)
Purchase of property, plant and equipment	(60)	47	-	(13)
Proceeds from disposal of property, plant and equipment	4	(1)	-	3
Net cash used in investing activities	(5,492)	2,925	-	(2,567)
Cash flows from financing activities				
Branch capital received	698	-	-	698
Net increase in due to other financial institutions - term	629	-	-	629
Net increase in deposits	2,244	-	-	2,244
Net proceeds from debt issues	(100)	-	-	(100)
Net decrease in due to related entities	3,691	(2,967)	-	724
Net decrease in other liabilities	(51)	8	-	(43)
Payment of dividends on convertible debentures	(159)	-	-	(159)
Remittance to the Overseas Bank	(333)	-	-	(333)
Net cash provided by financing activities	6,619	(2,959)	-	3,660
Net decrease in cash and cash equivalents	(21)	-	-	(21)
Cash and cash equivalents at beginning of the year	207	-	-	207
Cash and cash equivalents at end of the year	186	-	-	186
Cash and cash equivalents comprise				
Cash[1]	96	209	-	305
Due from other financial institutions - at call[1]	315	(209)	-	106
Due to other financial institutions - at call	(225)	-	-	(225)
Cash and cash equivalents at end of the year	186	-	-	186

[1] Nostro account balances have been reclassified from due from financial institutions to cash.

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of profit after income tax expense for the NZ Branch provided on pages 82 and 87.

Note 47 Local incorporation and proforma NZ Branch assets and liabilities as at 30 September 2006

The Reserve Bank's policy is that all systemically important banks must incorporate as a local entity rather than operate through a branch structure. The NZ Branch, a branch of the Overseas Bank, is a systemically important bank and must therefore incorporate locally.

The Reserve Bank allows an overseas bank to operate in New Zealand as both a branch of its overseas parent and through a subsidiary. The Overseas Bank has determined that this type of 'dual registration' is the most effective option for it to comply with the Reserve Bank's policy, while minimising disruption to the NZ Branch's investors and customers.

Accordingly, the Overseas Bank has established a new subsidiary in New Zealand, Westpac New Zealand Limited ('Westpac New Zealand') to assume and carry on the New Zealand consumer and business banking operations of the NZ Branch. Wholesale banking and financial markets business will remain with the NZ Branch.

The reorganisation of the Overseas Bank's business has been facilitated by legislation, which is the only means by which the Overseas Bank's New Zealand consumer and business banking operations can be vested in Westpac New Zealand efficiently, economically and without affecting the continuity of the provision of those banking services. The Westpac New Zealand Act 2006 provided for the vesting of designated NZ Branch assets and liabilities in Westpac New Zealand on 1 November 2006.

Westpac New Zealand commenced business as a registered bank on 1 November 2006.

The assets and liabilities that vested in Westpac New Zealand included all deposits and other liabilities, loans, securities and interests in land in relation to business banking (being financial services provided by the NZ Branch to small, medium and corporate business customers, agricultural businesses, and property investment and development customers) and consumer banking (being the financial services provided by the NZ Branch in relation to consumers).

The vesting of designated assets and liabilities has not changed the overall position of the Overseas Banking Group. However, the vesting has materially affected the current financial position of the NZ Branch.

The NZ Branch will continue to operate as a branch and will retain wholesale banking and financial markets business, which will continue to be conducted through Westpac Institutional Bank ('Institutional Bank'). There is no change to the banking relationship between the Institutional Bank and its customers.

The proforma statement of assets and liabilities below has been prepared to provide an indication of the NZ Branch's financial position, taking into account the vesting of designated assets and liabilities in Westpac New Zealand on 1 November 2006 as described above. The proforma statement provides a general indication of what the asset and liability profile of the NZ Branch would have been as at 30 September 2006 if the vesting described above had occurred on that date.

In addition to the proforma assets and liabilities displayed in this note, on 1 November 2006, Westpac Holdings - NZ - Limited sold its related entities Westpac (NZ) Investments Limited, The Home Mortgage Company Limited and its 51% interest in The Warehouse Financial Services Limited, each of whose business relates to retail banking operations, to Westpac New Zealand. These sales had no material effect on the results of either the NZ Banking Group or the NZ Branch.

Further information on Westpac New Zealand is available in Westpac New Zealand Limited's General Disclosure Statement for the period 14 February 2006 to 31 August 2006.

Note 47 Local incorporation and proforma NZ Branch assets and liabilities as at 30 September 2006 (continued)

	Westpac New Zealand		
	NZ Branch 2006 $m	Vesting Assets and Liabilities 2006 $m	Restated NZ Branch 2006 $m
Assets			
Cash	246	(106)	140
Due from other financial institutions	749	-	749
Derivative financial instruments	1,372	5	1,377
Other trading securities	2,671	(1,000)	1,671
Other financial assets designated at fair value	-	-	-
Available-for-sale securities	-	-	-
Loans	41,399	(36,451)	4,948
Due from related entities	2,383	(4)	2,379
Investments in related entities	-	-	-
Goodwill and other intangible assets	606	(606)	-
Property, plant and equipment	23	(23)	-
Income tax receivable	-	-	-
Deferred tax assets	83	(71)	12
Other assets	512	(129)	383
Total assets	50,044	(38,385)	11,659
Less:			
Liabilities			
Due to other financial institutions	1,192	-	1,192
Deposits at fair value	4,122	(4,122)	-
Deposits at amortised cost	26,241	(23,300)	2,941
Derivative financial instruments	1,576	1	1,577
Other trading liabilities	139	-	139
Debt issues	-	-	-
Current tax liabilities	35	-	35
Deferred tax liabilities	-	-	-
Provisions	72	(61)	11
Other liabilities	493	(370)	123
Total liabilities excluding subordinated debentures and due to related entities	33,870	(27,852)	6,018
Subordinated debentures	1,489	-	1,489
Total liabilities excluding due to related entities	35,359	(27,852)	7,507
Due to related entities	12,075	(10,533)	1,542
Total liabilities	47,434	(38,385)	9,049
Net assets	2,610	-	2,610
Represented by:			
Head office account			
Branch capital	711	-	711
Retained profits	596	-	596
Total head office account	1,307	-	1,307
NZ Banking Group equity			
Cash flow hedge reserve	19	-	19
Convertible debentures	1,284	-	1,284
Total NZ Banking Group equity	1,303	-	1,303
Minority interests			
Other minority interests	-	-	-
Total minority interests	-	-	-
Total head office account and equity	2,610	-	2,610

Auditors' report

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Auditors' Report

To the Directors of Westpac Banking Corporation

We have audited the financial statements on pages 10 to 91 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 Branch") and Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") and their financial position as at 30 September 2006. This information is stated in accordance with the accounting policies set out on pages 16 to 24.

The financial statements consist of the financial statements of the NZ Branch and the aggregated financial statements of the NZ Banking Group for the year ended 30 September 2006, 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 6 contains those disclosures required by Clause 12(4) of the Order.

Directors' Responsibilities

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2006 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 Branch 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 Branch 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 Branch and the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Branch and the NZ Banking Group. We have no other interests in the NZ Branch 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 Branch and the NZ Banking Group as far as appears from our examination of those records; and

(b) the financial statements on pages 10 to 91:

(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 Branch and the NZ Banking Group as at 30 September 2006 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 2006 and our unqualified opinion is expressed as at that date.

Pricewaterhouse Coopers

Chartered Accountants Auckland