



Westpac Banking Corporation General Short Form Disclosure Statement

For the nine months ended 30 June 2010

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General information and definitions

The information contained in this General Short Form Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 ('**Order**').

In this General Short Form 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.
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

Words and phrases defined by the Order have the same meaning when used in this General Short Form Disclosure Statement. All amounts referred to in this General Short Form 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 Act. However, for the purposes of this General Short Form 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 that date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office and address for service is Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Until 1 November 2006, the Overseas Bank operated as a branch in New Zealand. Effective 1 November 2006 the Overseas Bank has operated in New Zealand through both the NZ Branch (a branch of the Overseas Bank carrying on institutional banking and financial markets operations) and Westpac New Zealand Limited ('**Westpac New Zealand**') (a locally incorporated subsidiary of the Overseas Bank carrying on the Overseas Bank's New Zealand consumer and business banking operations). Westpac New Zealand is a member of the NZ Banking Group.

As a registered bank Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's General Short Form Disclosure Statement for the nine months ended 30 June 2010.

Directors

The Directors of the Overseas Bank at the time this General Short Form Disclosure Statement was signed were:

Edward Alfred Evans, AC, BEcon (Hons.)

Gail Patricia Kelly, Dip. Ed, BA, MBA, Doctor of Bus

John Simon Curtis, AM, BA, LLB (Hons.)

Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)

Gordon McKellar Cairns, MA (Hons.)

Peter John Oswin Hawkins, BCA (Hons.), SSFin, FAIM, ACA (NZ)

Carolyn Judith Hewson, AO, BEc (Hons.), MA (Econ.)

Lindsay Philip Maxsted, Dip. Bus. (Gordon), FCA

Graham John Reaney, BComm, CPA

Peter David Wilson, CA

There has been no change to the composition of the Overseas Bank's Board of Directors (the '**Board**') since the date of signing of the NZ Branch's General Disclosure Statement for the six months ended 31 March 2010.

All the Directors named above have authorised in writing George Frazis, Chief Executive, Westpac New Zealand, to sign this General Short Form Disclosure Statement on the Directors' behalf in accordance with section 82 of the Reserve Bank Act.

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.

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA	Stable
Moody's Investors Service	Aa1	Negative
Standard & Poor's	AA	Stable

On 31 March 2010, the Overseas Bank's credit rating issued by Fitch Ratings changed from AA- to AA with a 'stable' outlook. In the two years prior to 31 March 2010 the rating issued by Fitch Ratings was AA-. The rating outlook at 30 June 2008 was 'positive' and changed to 'stable' on 3 December 2008. This position remained unchanged until 31 March 2010 when the credit rating was upgraded to AA with a 'stable' outlook.

In the two years prior to 30 June 2010 the Overseas Bank's credit rating issued by Moody's Investors Service has not changed. However, on 2 March 2009, Moody's Investors Service revised the outlook from 'stable' to 'negative'. In maintaining a 'negative' outlook for all the major Australian banks, Moody's Investors Service highlighted the sector's structural reliance on wholesale funding. Moody's Investors Service has also indicated that it is watching the changes proposed by the Basel Committee on Banking Supervision in relation to liquidity and stable funding and that the proposed changes, if implemented, could address its concerns and have a material impact on bank ratings.

In the two years prior to 30 June 2010, the Overseas Bank's credit rating issued by Standard & Poor's has not changed. The outlook for the rating has also remained unchanged at 'stable'.

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, qualified, withdrawn or suspended at any time.

Descriptions of credit rating scales¹

	Fitch Ratings	Moody's Investors Service	Standard & Poor's
The following grades display investment grade characteristics:			
Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating.	AAA	Aaa	AAA
Very strong capacity to meet financial commitments.	AA	Aa	AA
Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca	CC
Obligations currently in default.	RD to D	C	SD to D

¹ This is a general description of the rating categories based on information published by Fitch Ratings, Moody's Investors Service and Standard & Poor's.

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

Ratings stated in **bold** indicate the Overseas Bank's current position within the credit rating scales.

Financial statements of the Overseas Bank and the Overseas Banking Group

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2009 and for the six months ended 31 March 2010 respectively, and can be accessed at the internet address www.westpac.com.au.

Copies of the NZ Branch's most recent General Short Form Disclosure Statement and Supplemental Disclosure Statement, which contain 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, at the internet address www.westpac.co.nz and within five working days of any request, at any branch of the NZ Branch and at any staffed premises of any agency of the NZ Branch, primarily engaged in the business of the NZ Branch to which its customers or potential customers have access in order to conduct banking business.

Guarantee arrangements

Certain material obligations of the Overseas Bank are guaranteed as at the date the Directors and the Chief Executive Officer, NZ Branch signed this General Short Form Disclosure Statement.

Guarantee of deposits by the Australian Government: Financial Claims Scheme

The Australian Government announced on 12 October 2008 that it would guarantee the deposits in eligible Australian authorised deposit-taking institutions ('ADIs'), as that term is defined for the purposes of the Banking Act 1959 of Australia ('**Australian Banking Act**'), for a period of three years from 12 October 2008. As at the date of this General Short Form Disclosure Statement the Overseas Bank is an ADI.

The Australian Banking Act was amended to facilitate the deposit guarantee by establishing a financial claims scheme ('**FCS**') to be administered by the Australian Prudential Regulation Authority ('**APRA**'). The FCS will operate on terms set out in the Australian Banking Act until 12 October 2011. Thereafter its continued operation will be subject to review by the Australian Government.

An ADI will be an 'eligible ADI' for the purposes of the FCS in circumstances where APRA has applied for the winding-up of the ADI and a declaration has been made by the responsible Australian Government minister that the FCS applies to that ADI. Once declared to be an eligible ADI, there are no other material conditions applicable to the coverage of deposits up to A\$1 million under the FCS other than that eligible ADI becoming unable to meet its obligations or suspending payment. As at the date of this General Short Form Disclosure Statement, APRA has not applied for a winding-up of the Overseas Bank nor has a declaration been made by the responsible Australian Government minister that the FCS applies to the Overseas Bank.

The first A\$1 million of 'protected accounts' held with an eligible ADI (including most deposits) are guaranteed without charge under the FCS. A 'protected account' (as defined for the purposes of the Australian Banking Act) must be:

- prescribed under the regulations;
- kept under an agreement between the account holder and the ADI requiring the ADI to pay the account-holder the net credit balance on demand or at an agreed time; or
- a 'covered financial product' (that is, one specified in a ministerial declaration) that is kept under an agreement between the account holder and the ADI requiring the ADI to pay the account-holder on demand or at an agreed time the net credit balance.

The A\$1 million threshold applies to the total amount of funds held by a depositor in (separate) deposit accounts with an eligible ADI. Eligible institutions were able to obtain coverage for deposit amounts over A\$1 million under the Guarantee Facility (described below) in return for a fee.

The Financial Claims Scheme (ADIs) Levy Act 2008 of Australia also provides for the imposition of a levy to fund the excess of certain of APRA's FCS costs connected with an ADI over the sum of specified amounts paid to APRA by that ADI in connection with the FCS or in the winding-up of that ADI. The levy is imposed on liabilities of ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities.

Further information about the FCS may be obtained from the Australian Federal Treasurer's internet site www.treasurer.gov.au. The Australian Banking Act and the Financial Claims Scheme (ADIs) Levy Act 2008 are also available from the following internet site maintained by the Australian Attorney-General's Department www.comlaw.gov.au.

Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding: Guarantee Facility

On 20 November 2008 the Australian Government released the details and rules ('**Scheme Rules**') of the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding ('**Guarantee Facility**'), which provided a guarantee facility for deposits of amounts over A\$1 million and wholesale term funding. The obligations of the Commonwealth of Australia are contained in a deed of guarantee executed on behalf of the Commonwealth of Australia ('**Guarantor**') dated 20 November 2008 and taking effect from 28 November 2008 ('**Guarantee**'). The Scheme Rules govern access to protection under the Guarantee.

The Australian Government announced on 7 February 2010 that it would withdraw the Guarantee Facility, which ceased to have effect from 5pm on 31 March 2010. Deposit balances above A\$1 million covered by the Guarantee Facility as at 31 March 2010 will be covered until maturity (for term deposits) or until October 2015 (for at call deposits). For at call deposits, the amount covered will be capped at the closing guaranteed amount on 31 March 2010. Deposits and interest payments after this date will only be covered (up to the capped amount) if the guaranteed balance has fallen below the capped amount. For term deposits, interest due after 31 March 2010 will be guaranteed to maturity. Statutory trust accounts will be treated in the same way as other large deposits. Guaranteed wholesale liabilities as at 31 March 2010 with terms to maturity up to five years will also be guaranteed to the earlier of maturity or five years. The Scheme Rules were amended to effect the withdrawal of the Guarantee Facility. The announcement does not affect the FCS, which continues to cover deposits of up to A\$1 million until its continued operation is reviewed in October 2011.

The Guarantee and the Scheme Rules are available at www.guaranteescheme.gov.au and may be amended by the Australian Government from time to time. A copy of the Guarantee is also included in the NZ Branch's most recent Supplemental Disclosure Statement, which is available, free of charge, at the internet address www.westpac.co.nz and immediately on request at the NZ Branch's head office, Level 15, 188 Quay Street, Auckland. The NZ Branch's most recent Supplemental Disclosure Statement is also available, free of charge, within five working days of any request, at any branch of the NZ Branch.

The Guarantor shall not be liable to perform its obligations under the Guarantee in respect of liabilities which have been varied, amended, waived, released, novated, supplemented, extended or restated in any material respect without the written consent of the Guarantor.

The Commonwealth of Australia may also amend the terms of the Guarantee at any time at its discretion, provided that (except insofar as such amendment is required by law) such amendment does not reduce the Commonwealth of Australia's obligations to the beneficiaries under the Guarantee in a manner which is prejudicial to the interests of the beneficiaries in respect of any subsisting guaranteed liability. In particular, see clause 6 of the Guarantee, the form of which is set out in the NZ Branch's most recent Supplemental Disclosure Statement.

The Scheme Rules set out those named institutions that are 'eligible institutions' for the purposes of the Guarantee Facility. As at the date of this General Short Form Disclosure Statement the Overseas Bank is such an eligible institution.

Guarantee arrangements (continued)

As described above, under the heading **Guarantee of deposits by the Australian Government: Financial Claims Scheme**, from 28 November 2008 the first A\$1 million in 'protected accounts' held with an eligible ADI (including most deposits) is guaranteed for free under the FCS. However, an eligible institution is able to obtain coverage for deposits of amounts over A\$1 million and wholesale term funding under the Guarantee Facility in return for payment of a fee. A different fee applies to eligible institutions based on their long-term credit rating. The fee which applies to the Overseas Bank, based on its current long-term rating by Standard & Poor's of AA, is 70 basis points (or 0.70%) and is levied on a monthly basis.

Liabilities of an eligible institution only have the benefit of the Guarantee Facility where an eligibility certificate has been issued by the Commonwealth of Australia in respect of those liabilities. As a result of the withdrawal of the Guarantee Facility with effect from 31 March 2010, the final date on which an eligible institution could apply for an eligibility certificate was 24 March 2010.

As at the date this General Short Form Disclosure Statement was signed by the Directors and Chief Executive Officer, NZ Branch, eligibility certificates have been issued by the Commonwealth of Australia in respect of certain of the Overseas Bank's existing deposit and wholesale term funding liabilities. Details of these eligibility certificates are available on www.guaranteescheme.gov.au/liabilities/.

A beneficiary of the Guarantee may rely upon the issue of an eligibility certificate as conclusive evidence that the liability described in the eligibility certificate satisfies the eligibility criteria set out in the Scheme Rules.

A claim for payment under the Guarantee must be in writing and made in the form specified in, and in accordance with, the Scheme Rules.

Information about the Guarantor

The Guarantor's name and address for service is: The Commonwealth of Australia, c/o - The Treasury of the Commonwealth of Australia, Treasury Building, Langton Crescent, Parkes ACT 2600, Australia. A copy of the most recent audited financial statements of the Guarantor is available at www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/.

The credit ratings assigned to the Guarantor's long-term obligations payable in Australian dollars (the currency of its jurisdiction) are AAA by Standard & Poor's, Aaa by Moody's Investors Service and AAA by Fitch Ratings. The outlook for each of these ratings is 'stable'. There have been no changes in these credit ratings (including outlook) in the two years prior to 30 June 2010.

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, qualified, withdrawn or suspended at any time. For an explanation of the credit rating scales see the table under the sub-heading "Description of credit rating scales" on page 2 of this General Short Form Disclosure Statement.

New Zealand deposit guarantee scheme and wholesale funding guarantee facility

Westpac New Zealand has entered into the following guarantees with the New Zealand Government ('**Crown**')

- (i) a Crown Deed of Guarantee dated 11 November 2008, amended by supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**');
- (ii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**'); and
- (iii) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together '**Wholesale Guarantee**'). The Wholesale Guarantee closed on 30 April 2010. From that time no new Guarantee Eligibility Certificates will be issued to Westpac New Zealand. Existing guaranteed liabilities will not be affected.

Details of the Deposit Guarantee, Revised Deposit Guarantee and Wholesale Guarantee can be found in Westpac New Zealand's General Short Form Disclosure Statement for the nine months ended 30 June 2010 (available free of charge at www.westpac.co.nz), and on the Treasury internet site www.treasury.govt.nz.

The NZ Branch has not entered into the deposit guarantee scheme and did not participate in the wholesale guarantee facility.

Ranking of local creditors in liquidation

There are material legislative restrictions in Australia (being the Overseas Bank's country of incorporation) which subordinate the claims of certain classes of unsecured creditors of the Overseas Bank on the Australian assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) to those of other classes of unsecured creditors of the Overseas Bank, in the event that the Overseas Bank becomes unable to meet its obligations or suspends payment.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Branch (together with all other senior unsecured creditors of the Overseas Bank) and New Zealand depositors on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) relative to those of certain other classes of unsecured creditors of the Overseas Bank, in the event that the Overseas Bank becomes unable to meet its obligations or suspends payment.

The Overseas Bank is an ADI for the purposes of the Australian Banking Act. Prior to 27 July 2010, section 13A(3) of the Australian Banking Act provided that, in the event an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to satisfy, in priority to all other liabilities of the ADI:

- first, certain obligations of the ADI to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of 'protected accounts' (as defined for the purposes of the Australian Banking Act) as part of the FCS;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the ADI in connection with the FCS; and
- third, the ADI's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

With effect from 27 July 2010, section 13A of the Australian Banking Act was amended so that in the event that the ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to satisfy the liabilities of the ADI in the following order:

- first and second, as above;
- third, the ADI's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the ADI;
- fourth, the ADI's debts (if any) to the Reserve Bank of Australia;

Ranking of local creditors in liquidation (continued)

- fifth, the ADI's liabilities (if any) under an emergency financial 'industry support contract' that is certified by APRA in accordance with the Australian Banking Act; and
- sixth, the ADI's other liabilities (if any) in the order of their priority apart from the above.

Section 13A of the Australian Banking Act affects all unsecured liabilities of the NZ Branch which as at 30 June 2010 amounted to \$18,393 million (30 June 2009: \$23,045 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill and, with effect from 27 July 2010, any assets or other amount excluded by the prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the nine months ended 30 June 2010, 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.

Under section 16 of the Australian Banking Act, on the winding-up of an ADI, APRA's cost of being in control of an ADI's business, or having an administrator in control of an ADI's business, are a debt due to APRA. Debts due to APRA shall have, subject to section 13A(3) of the Australian Banking Act, priority over all other unsecured debts of that ADI.

The requirements of the above provisions have the potential to impact on the management of the liquidity of the NZ Banking Group.

Conditions of registration

The conditions of registration imposed on the NZ Branch, which have applied from 26 November 2007, 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 1 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 Westpac Banking Corporation.
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 Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
 - Tier One Capital of Westpac Banking Corporation is not less than 4 percent of risk-weighted exposures;
 - Total Capital of Westpac Banking Corporation is not less than 8 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\$15 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.

Further information on the capital adequacy of the Overseas Bank is contained in Note 13 Capital adequacy.

Proposed transfer of additional banking operations to Westpac New Zealand

Until 1 November 2006, the Overseas Bank conducted its operations in New Zealand through a branch structure. On that date, and after extensive consultation with the Reserve Bank, the Overseas Bank adopted a dual operating model including a locally incorporated subsidiary, Westpac New Zealand, to conduct its consumer and business banking operations in New Zealand, and the NZ Branch, to conduct its institutional and financial markets operations. The conditions of registration of each of Westpac New Zealand and the NZ Branch are consistent with these operating model arrangements.

In May 2009, the Reserve Bank, Westpac New Zealand and the NZ Branch agreed to an independent review of the structure of the operating model of the Overseas Bank's business in New Zealand. This review was conducted under the well established processes and framework of section 95 of the Reserve Bank Act.

The Reserve Bank, Westpac New Zealand and the Overseas Bank have now reached high level agreement on changes to the operating model. Under that agreement, the NZ Branch will transfer the following additional business activities and associated employees to Westpac New Zealand:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending;
- debt capital markets (including customer loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes); and
- corporate advisory.

While high level agreement has been reached on the operating model, agreement on the detail and implementation programme is also required and will be the subject of further consultation with the Reserve Bank.

As at 30 June 2010, business activities proposed to be transferred by the NZ Branch include: customer loans of approximately \$6.8 billion, customer deposits of approximately \$4.7 billion, and term intra-group funding of approximately \$3.0 billion. In addition, for the nine months ended 30 June 2010, it is estimated that the business activities to be transferred by the NZ Branch had aggregate revenues of approximately \$130 million and aggregate net profit after tax of approximately \$90 million.

Under the proposed changes to the operating model, the NZ Branch will retain its financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers, pricing and risk management for interest rate, foreign exchange and commodity products for retail, business and institutional customers of Westpac New Zealand, and trading of capital markets products and foreign exchange as principal. In addition, the NZ Branch will retain its global intra-group financing functions.

Implementation of the transfer is currently expected to be completed by the end of the 2011 calendar year.

Directors' and the Chief Executive Officer, NZ Branch's statement

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

- a. contains all information that is required by the Order; and
- b. is not false or misleading.


Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the nine months ended 30 June 2010:

- a. the NZ Branch has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- b. 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, operational risk and other business risks and that those systems were being properly applied.

This Directors' Statement has been signed on behalf of the Directors by George Frazis, Chief Executive, Westpac New Zealand, and David McLean in his personal capacity as Chief Executive Officer, NZ Branch.



George Frazis



David McLean

Dated this the 17th day of August 2010

Consolidated financial statements

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Consolidated income statement for the nine months ended 30 June 2010

	NZ Banking Group			
	Nine Months Ended 30 June 2010 Unaudited \$m	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	
	Note			
Interest income		2,965	3,619	4,622
Interest expense		(1,911)	(2,475)	(3,142)
Net interest income		1,054	1,144	1,480
Non-interest income:				
Fees and commissions		236	269	360
Wealth management income		64	56	80
Trading income		76	150	136
Gain on ineffective hedges		3	1	3
Other non-interest income		17	36	31
Total non-interest income		396	512	610
Net operating income		1,450	1,656	2,090
Operating expenses		(566)	(580)	(808)
Impairment charges on loans	2	(227)	(565)	(690)
Operating profit		657	511	592
Share of profit of associate accounted for using the equity method		-	-	-
Profit before income tax expense		657	511	592
Income tax expense on operating profit		(199)	(149)	(168)
Income tax related to New Zealand structured finance transactions		188	(55)	(918)
Profit/(loss) after income tax expense		646	307	(494)
Profit/(loss) after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		644	305	(497)
Non-controlling interests		2	2	3
Profit/(loss) after income tax expense		646	307	(494)

The accompanying notes (numbered 1 to 15) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the nine months ended 30 June 2010

	NZ Banking Group		
	Nine Months Ended 30 June 2010 Unaudited \$m	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Profit/(loss) after income tax expense	646	307	(494)
Other comprehensive income:			
Net unrealised gains from changes in fair value of available-for-sale securities	7	1	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	60	(178)	(107)
Transferred to the income statement	3	(6)	(3)
Actuarial gains on employee defined benefit superannuation schemes	7	-	30
Income tax relating to components of other comprehensive income ¹	(21)	56	22
Other comprehensive income/(expense), net of tax	56	(127)	(56)
Total comprehensive income/(expense)	702	180	(550)
Total comprehensive income/(expense) attributable to:			
Head office account and owners of NZ Banking Group	700	178	(553)
Non-controlling interests	2	2	3
Total comprehensive income/(expense)	702	180	(550)

¹ The income tax effects relating to each component of other comprehensive income is disclosed in the table below.

Tax effects relating to each component of other comprehensive income

	NZ Banking Group		
	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	Net of Tax Amount \$m
For the nine months ended 30 June 2010 (unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	7	-	7
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	60	(18)	42
Transferred to the income statement	3	(1)	2
Actuarial gains on employee defined benefit superannuation schemes	7	(2)	5
Other comprehensive income	77	(21)	56
For the nine months ended 30 June 2009 (unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	1	-	1
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(178)	54	(124)
Transferred to the income statement	(6)	2	(4)
Other comprehensive expense	(183)	56	(127)
For the year ended 30 September 2009 (audited)			
Net unrealised gains from changes in fair value of available-for-sale securities	2	-	2
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(107)	32	(75)
Transferred to the income statement	(3)	1	(2)
Actuarial gains on employee defined benefit superannuation schemes	30	(11)	19
Other comprehensive expense	(78)	22	(56)

The accompanying notes (numbered 1 to 15) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the nine months ended 30 June 2010

NZ Banking Group

	Head Office Account		Convertible Debentures \$m	NZ Banking Group Equity				Total Before Non-controlling Interests \$m	Non-controlling Interests \$m	Total Equity \$m
	Branch Capital \$m	Retained Profits/(Accumulated Losses) \$m		Share Capital \$m	Retained Profits \$m	Cash Flow Hedge Reserve \$m	Available-for-sale Securities Reserve \$m			
As at 1 October 2008	-	174	1,284	1,433	1,305	(88)	16	4,124	8	4,132
Nine months ended 30 June 2009										
Profit after income tax expense	-	165	-	-	140	-	-	305	2	307
Other comprehensive (expense)/income	-	-	-	-	-	(128)	1	(127)	-	(127)
Total comprehensive income/(expense) for the nine months ended 30 June 2009	-	165	-	-	140	(128)	1	178	2	180
Transactions with owners:										
Ordinary share capital issued	-	-	-	9	-	-	-	9	-	9
Allocation of Branch Capital from the Overseas Bank ¹	1,300	-	-	-	-	-	-	1,300	-	1,300
Preference share capital redeemed ¹	-	-	-	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on convertible debentures (net of tax)	-	(34)	-	-	-	-	-	(34)	-	(34)
Dividends paid on ordinary shares	-	-	-	-	(9)	-	-	(9)	(3)	(12)
Dividends paid on preference shares	-	-	-	-	(104)	-	-	(104)	-	(104)
Aggregation of new entities ²	-	-	-	301	-	-	-	301	-	301
Share capital buy-back ³	-	-	-	(301)	-	-	-	(301)	-	(301)
As at 30 June 2009 (unaudited)	1,300	305	1,284	142	1,332	(216)	17	4,164	7	4,171
Year ended 30 September 2009										
(Loss)/profit after income tax expense	-	(513)	-	-	16	-	-	(497)	3	(494)
Other comprehensive income/(expense)	-	-	-	-	19	(77)	2	(56)	-	(56)
Total comprehensive (expense)/income for the year ended 30 September 2009	-	(513)	-	-	35	(77)	2	(553)	3	(550)
Transaction with owners:										
Ordinary share capital issued	-	-	-	9	-	-	-	9	-	9
Allocation of Branch Capital from the Overseas Bank ¹	1,800	-	-	-	-	-	-	1,800	-	1,800
Preference share capital redeemed ¹	-	-	-	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on convertible debentures (net of tax)	-	(69)	-	-	-	-	-	(69)	-	(69)
Dividends paid on ordinary shares	-	-	-	-	(9)	-	-	(9)	(4)	(13)
Dividends paid on preference shares	-	-	-	-	(104)	-	-	(104)	-	(104)
Aggregation of new entities ²	-	-	-	301	-	-	-	301	-	301
Share capital buy-back ³	-	-	-	(301)	-	-	-	(301)	-	(301)
As at 30 September 2009 (audited)	1,800	(408)	1,284	142	1,227	(165)	18	3,898	7	3,905
Nine months ended 30 June 2010										
Profit after income tax expense	-	333	-	-	311	-	-	644	2	646
Other comprehensive income	-	-	-	-	5	44	7	56	-	56
Total comprehensive income for the nine months ended 30 June 2010	-	333	-	-	316	44	7	700	2	702
Transaction with owners:										
Repatriation of Branch Capital to the Overseas Bank ⁴	(500)	-	-	-	-	-	-	(500)	-	(500)
Dividends paid on convertible debentures (net of tax)	-	(34)	-	-	-	-	-	(34)	-	(34)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(3)	(3)
As at 30 June 2010 (unaudited)	1,300	(109)	1,284	142	1,543	(121)	25	4,064	6	4,070

1 During the year ended 30 September 2008, the NZ Branch repatriated \$1.3 billion to the Overseas Bank from Branch capital (\$698 million) and retained profits (\$602 million). The amount repatriated was replaced by the issuance of \$1.3 billion redeemable preference shares redeemable in 100 years, with distributions at the discretion of the Board. The \$1.3 billion redeemable preference shares were subsequently redeemed on 18 February 2009 and, at the same time, the Overseas Bank advanced capital of \$1.3 billion to the NZ Branch. On 14 September 2009, the Overseas Bank advanced a further \$500 million of capital to the NZ Branch.

2 This represents the net pre-acquisition capital contributed by the aggregation of St.George New Zealand Limited and St.George Financial Investments New Zealand Limited into the NZ Banking Group effective as at 17 November 2008.

3 This represents the buy-back of share capital by St.George New Zealand Limited from St.George Bank Limited during the period 17 November 2008 to 31 December 2008.

4 The NZ Branch repatriated \$500 million of capital to the Overseas Bank on 21 June 2010.

The accompanying notes (numbered 1 to 15) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 30 June 2010

		NZ Banking Group		
		30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Note				
Assets				
	Cash and balances with central banks	902	916	798
	Due from other financial institutions	292	109	843
	Derivative financial instruments	4,891	7,034	6,328
	Trading securities and other financial assets designated at fair value	5,505	6,459	5,405
	Available-for-sale securities	44	36	37
	Loans	56,412	55,109	55,592
	Life insurance assets	123	105	113
	Due from related entities	1,760	2,402	2,759
	Investment in associate	48	48	48
	Goodwill and other intangible assets	619	621	623
	Property, plant and equipment	117	92	94
	Deferred tax assets	387	361	306
	Other assets	224	971	498
	Total assets	71,324	74,263	73,444
Liabilities				
	Due to other financial institutions	528	368	485
	Deposits at fair value	1,975	4,417	3,468
	Deposits at amortised cost	34,643	32,720	32,944
	Derivative financial instruments	4,882	8,118	6,970
	Trading liabilities and other financial liabilities designated at fair value	345	2,457	2,698
	Debt issues	16,729	10,376	12,369
	Current tax liabilities	-	51	373
	Provisions	102	91	106
	Other liabilities	496	944	663
	Total liabilities excluding subordinated debentures and due to related entities	59,700	59,542	60,076
	Subordinated debentures	848	858	790
	Total liabilities excluding due to related entities	60,548	60,400	60,866
	Due to related entities	6,706	9,692	8,673
	Total liabilities	67,254	70,092	69,539
	Net assets	4,070	4,171	3,905
Equity				
Head office account				
	Branch capital	1,300	1,300	1,800
	(Accumulated losses)/retained profits	(109)	305	(408)
	Total head office account	1,191	1,605	1,392
	Convertible debentures	1,284	1,284	1,284
NZ Banking Group equity				
	Ordinary share capital	142	142	142
	Retained profits	1,543	1,332	1,227
	Cash flow hedge reserve	(121)	(216)	(165)
	Available-for-sale securities reserve	25	17	18
	Total equity attributable to owners of the NZ Banking Group	1,589	1,275	1,222
	Non-controlling interests	6	7	7
	Total equity	4,070	4,171	3,905
	Interest earning and discount bearing assets	63,704	63,652	62,539
	Interest and discount bearing liabilities	57,709	55,524	55,384

The accompanying notes (numbered 1 to 15) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the nine months ended 30 June 2010

	NZ Banking Group		
	Nine Months Ended 30 June 2010 Unaudited \$m	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Cash flows from operating activities			
Interest income received	2,956	3,691	4,701
Interest expense paid	(1,926)	(2,712)	(3,314)
Non-interest income received	395	520	617
Net decrease/(increase) in trading securities and other financial assets designated at fair value	164	(3,026)	(2,019)
Net (decrease)/increase in trading liabilities and other financial liabilities designated at fair value	(2,451)	1,540	1,552
Net (increase)/decrease in derivative financial instruments	(588)	1,426	1,067
Operating expenses paid	(507)	(516)	(721)
Income tax paid	(464)	(229)	(246)
Net cash (used in)/provided by operating activities	(2,421)	694	1,637
Cash flows from investing activities			
Net decrease in due from other financial institutions – term	-	1,024	1,028
Net loans advanced to customers	(1,047)	(105)	(713)
Net increase in life insurance assets	(10)	(16)	(24)
Net decrease/(increase) in due from related entities	999	(220)	(589)
Net decrease/(increase) in other assets	22	(54)	(69)
Purchase of capitalised computer software	(27)	(28)	(44)
Purchase of property, plant and equipment	(42)	(30)	(39)
Proceeds from disposal of property, plant and equipment	1	-	5
Net cash (used in)/provided by investing activities	(104)	571	(445)
Cash flows from financing activities			
Redemption of preference share capital	-	(1,300)	(1,300)
Net increase in deposits	206	786	61
Net proceeds from/(repayments of) debt issues	4,360	(726)	1,267
Net decrease in due to related entities	(1,969)	(1,618)	(2,637)
Net decrease in other liabilities and subordinated debentures	(10)	(74)	(203)
Payment of dividends on convertible debentures	(49)	(56)	(99)
Payment of dividends on ordinary shares	(3)	(3)	(4)
Payment of dividends on preference shares	-	(104)	(104)
Branch capital (repatriated to)/received from the Overseas Bank	(500)	1,300	1,800
Net cash provided by/(used in) financing activities	2,035	(1,795)	(1,219)
Net decrease in cash and cash equivalents	(490)	(530)	(27)
Cash and cash equivalents at beginning of the period/year	1,156	1,183	1,183
Cash and cash equivalents at end of the period/year	666	653	1,156
Cash and cash equivalents comprise:			
Cash and balances with central banks	902	916	798
Due (to)/from other financial institutions – at call (net)	(236)	(263)	358
Cash and cash equivalents at end of the period/year	666	653	1,156
Reconciliation of profit/(loss) after income tax expense to net cash (used in)/provided by operating activities			
Profit/(loss) after income tax expense	646	307	(494)
<i>Adjustments:</i>			
Software amortisation costs	31	34	45
Impairment charges on intangible assets	-	-	3
Impairment charges on loans	227	565	690
Depreciation	18	16	21
Gain on disposal of property, plant and equipment	-	-	(3)
Share-based payments	2	3	3
Movement in accrued assets	(12)	89	614
Movement in accrued liabilities and provisions	2	(220)	(164)
Movement in current and deferred tax	(475)	(62)	292
Tax on convertible debentures dividends	15	22	30
Movement in trading securities and other financial assets designated at fair value	164	(3,026)	(2,019)
Movement in trading liabilities and other financial liabilities designated at fair value	(2,451)	1,540	1,552
Movement in derivative financial instruments	(588)	1,426	1,067
Net cash (used in)/provided by operating activities	(2,421)	694	1,637

The accompanying notes (numbered 1 to 15) form part of, and should be read in conjunction with, these financial statements.

Notes to the consolidated financial statements

Note 1 Statement of accounting policies

Statutory base

These financial statements are prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**') as appropriate for profit-oriented entities, and New Zealand equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the General Disclosure Statements for the year ended 30 September 2009 and for the six months ended 31 March 2010.

These financial statements also comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2009, the following standards, interpretations and amendments have been adopted with effect from 1 October 2009 in the preparation of these financial statements:

- New Zealand equivalent to International Financial Reporting Standards ('**NZ IFRS**') 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* – The main changes under these standards which apply prospectively to business combinations are that:
 - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
 - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however, remeasurement in the future will be recognised in the income statement;
 - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
 - while control is retained, transactions with non-controlling interests are treated as equity transactions.
- NZ IAS 1 *Presentation of Financial Statements* (revised) – The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- NZ IFRS 8 *Operating Segments* – Further aligns external operating segment reporting with internal reporting to key management personnel.

Adoption of these new and revised accounting standards has not resulted in any change to the NZ Banking Group's reported result or financial position.

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 the financial statements of the Overseas Banking Group's New Zealand business; and
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

These financial statements were authorised for issue by the Board on 17 August 2010. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by 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 accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the General Disclosure Statements for the year ended 30 September 2009, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the "Statutory base" section above, and for the six months ended 31 March 2010.

Certain comparative figures have been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative figures the nature of, and the reason for, the restatement is disclosed in the relevant note.

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, St.George New Zealand Limited, St.George Financial Investments New Zealand Limited, Westpac NZ Funding Limited and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited, Westpac Financial Services Group - NZ - Limited, Westpac Group Investment - NZ - Limited, Westpac New Zealand Group Limited and their controlled entities. 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.

The NZ Banking Group may invest in or establish special purpose vehicles to enable it to undertake specific types of transactions. Where the NZ Banking Group controls such vehicles, they are consolidated into the NZ Banking Group's financial results.

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

As a result of the merger between the Overseas Bank and St.George Bank Limited, St.George New Zealand Limited and St.George Financial Investments New Zealand Limited were aggregated as part of the NZ Banking Group effective from 17 November 2008.

Notes to the consolidated financial statements

Note 2 Impairment charges on loans

	NZ Banking Group			
	Nine Months Ended 30 June 2010 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provision	37	44	(26)	55
Individually assessed provisions	61	-	97	158
Bad debt write-off direct to the income statement	7	40	9	56
Interest adjustments	(3)	(14)	(25)	(42)
Total impairment charges on loans	102	70	55	227

	NZ Banking Group			
	Nine Months Ended 30 June 2009 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provision	10	3	165	178
Individually assessed provisions	60	-	298	358
Bad debt write-off direct to the income statement	2	47	5	54
Interest adjustments	(2)	(8)	(15)	(25)
Total impairment charges on loans	70	42	453	565

	NZ Banking Group			
	Year Ended 30 September 2009 – Audited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provision	12	(1)	212	223
Individually assessed provisions	86	-	328	414
Bad debt write-off direct to the income statement	7	73	8	88
Interest adjustments	(3)	(10)	(22)	(35)
Total impairment charges on loans	102	62	526	690

Notes to the consolidated financial statements

Note 3 Trading securities and other financial assets designated at fair value

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Trading securities			
Listed:			
NZ Government securities	2,567	2,677	2,669
NZ corporate securities	43	5	4
Other	-	-	2
Total listed trading securities	2,610	2,682	2,675
Unlisted:			
NZ corporate securities:			
Certificates of deposit	2,422	3,333	2,181
Commercial paper	131	25	8
Corporate bonds	68	59	50
Total unlisted trading securities	2,621	3,417	2,239
Securities purchased under agreement to resell	274	360	491
Total trading securities and other financial assets designated at fair value	5,505	6,459	5,405

As at 30 June 2010 the NZ Banking Group had \$83 million (30 June 2009: \$294 million, 30 September 2009: \$395 million) of trading securities that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 4 Loans

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Overdrafts	1,242	1,399	1,369
Credit card outstandings	1,248	1,168	1,182
Money market loans	965	1,206	1,106
Term loans:			
Housing	33,857	32,008	32,364
Non-housing	18,896	19,218	19,235
Other	969	906	947
Total gross loans	57,177	55,905	56,203
Provisions for impairment charges on loans	(765)	(796)	(611)
Total net loans	56,412	55,109	55,592

The repurchase cash amount of the NZ Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities as at 30 June 2010 was nil (30 June 2009: \$1,814 million, 30 September 2009: \$1,814 million), with no underlying securities (30 June 2009: \$2,253 million, 30 September 2009: \$2,253 million) provided under this arrangement.

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 5.

Notes to the consolidated financial statements

Note 5 Credit quality, impaired assets and provisions for impairment charges

NZ Banking Group				
Nine Months Ended 30 June 2010 – Unaudited				
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Total neither past due nor impaired	32,327	1,557	20,439	54,323
Past due assets 1 to 89 days¹				
Balance at beginning of the period	850	131	426	1,407
Additions	4,384	632	2,319	7,335
Deletions	(4,166)	(631)	(2,287)	(7,084)
Balance at end of the period	1,068	132	458	1,658
Past due assets 90+ days^{1, 2}				
Balance at beginning of the period	88	26	232	346
Additions	210	58	379	647
Deletions	(216)	(61)	(309)	(586)
Balance at end of the period	82	23	302	407
Total past due assets¹	1,150	155	760	2,065
Individually impaired assets²				
Balance at beginning of the period	351	-	324	675
Additions	313	-	340	653
Amounts written off	(58)	-	(27)	(85)
Returned to performing or repaid	(226)	-	(228)	(454)
Balance at end of the period	380	-	409	789
Restructured assets²				
Balance at beginning of the period	-	-	1	1
Additions	-	-	-	-
Deletions	-	-	(1)	(1)
Balance at end of the period	-	-	-	-
Total impaired assets	380	-	409	789
Total gross loans^{3, 4}	33,857	1,712	21,608	57,177
Individually assessed provisions				
Balance at beginning of the period	66	-	86	152
Impairment charges on loans:				
New provisions	78	-	117	195
Recoveries	(17)	-	(20)	(37)
Amounts written off	(51)	-	(12)	(63)
Balance at end of the period	76	-	171	247
Collectively assessed provisions				
Balance at beginning of the period	42	60	408	510
Impairment charges on loans	37	44	(26)	55
Balance at end of the period	79	104	382	565
Total provision for impairment charges and credit commitments	155	104	553	812
Less: Provision for credit commitments	-	-	(47)	(47)
Total impairment provisions	155	104	506	765
Total net loans	33,702	1,608	21,102	56,412

1 Past due assets are not impaired assets.

2 The NZ Banking Group and the NZ Branch do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.

3 The NZ Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

4 The NZ Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Notes to the consolidated financial statements

Note 5 Credit quality, impaired assets and provisions for impairment charges (continued)

	NZ Banking Group			
	Nine Months Ended 30 June 2009 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Total neither past due nor impaired	30,424	1,450	20,957	52,831
Past due assets 1 to 89 days¹				
Balance at beginning of the period	1,394	156	845	2,395
Additions	5,460	670	3,016	9,146
Deletions	(5,741)	(685)	(3,240)	(9,666)
Balance at end of the period	1,113	141	621	1,875
Past due assets 90+ days^{1,2}				
Balance at beginning of the period	75	25	122	222
Additions	296	73	387	756
Deletions	(245)	(67)	(303)	(615)
Balance at end of the period	126	31	206	363
Total past due assets¹	1,239	172	827	2,238
Individually impaired assets²				
Balance at beginning of the period	190	-	88	278
Additions	347	-	461	808
Amounts written off	(14)	-	(32)	(46)
Returned to performing or repaid	(178)	-	(26)	(204)
Balance at end of the period	345	-	491	836
Restructured assets²				
Balance at beginning of the period	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	-	-
Balance at end of the period	-	-	-	-
Total impaired assets	345	-	491	836
Total gross loans^{3,4}	32,008	1,622	22,275	55,905
Individually assessed provisions				
Balance at beginning of the period	24	-	42	66
Impairment charges on loans:				
New provisions	70	-	300	370
Recoveries	(10)	-	(2)	(12)
Amounts written off	(14)	-	(32)	(46)
Balance at end of the period	70	-	308	378
Collectively assessed provisions				
Balance at beginning of the period	30	61	196	287
Impairment charges on loans	10	3	165	178
Balance at end of the period	40	64	361	465
Total provision for impairment charges and credit commitments	110	64	669	843
Less: Provision for credit commitments	-	-	(47)	(47)
Total impairment provisions	110	64	622	796
Total net loans	31,898	1,558	21,653	55,109

1 Past due assets are not impaired assets.

2 The NZ Banking Group and the NZ Branch do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.

3 The NZ Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

4 The NZ Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Notes to the consolidated financial statements

Note 5 Credit quality, impaired assets and provisions for impairment charges (continued)

NZ Banking Group				
Year Ended 30 September 2009 – Audited				
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Total neither past due nor impaired	31,075	1,487	21,212	53,774
Past due assets 1 to 89 days¹				
Balance at beginning of the year	1,394	156	845	2,395
Additions	6,947	865	3,708	11,520
Deletions	(7,491)	(890)	(4,127)	(12,508)
Balance at end of the year	850	131	426	1,407
Past due assets 90+ days^{1, 2}				
Balance at beginning of the year	75	25	122	222
Additions	361	94	560	1,015
Deletions	(348)	(93)	(450)	(891)
Balance at end of the year	88	26	232	346
Total past due assets¹	938	157	658	1,753
Individually impaired assets²				
Balance at beginning of the year	190	-	88	278
Additions	486	-	606	1,092
Amounts written off	(64)	-	(290)	(354)
Returned to performing or repaid	(261)	-	(80)	(341)
Balance at end of the year	351	-	324	675
Restructured assets²				
Balance at beginning of the year	-	-	-	-
Additions	-	-	1	1
Deletions	-	-	-	-
Balance at end of the year	-	-	1	1
Total impaired assets	351	-	325	676
Total gross loans^{3, 4}	32,364	1,644	22,195	56,203
Individually assessed provisions				
Balance at beginning of the year	24	-	42	66
Impairment charges on loans:				
New provisions	102	-	333	435
Recoveries	(16)	-	(5)	(21)
Amounts written off	(44)	-	(284)	(328)
Balance at end of the year	66	-	86	152
Collectively assessed provisions				
Balance at beginning of the year	30	61	196	287
Impairment charges on loans	12	(1)	212	223
Balance at end of the year	42	60	408	510
Total provision for impairment charges and credit commitments	108	60	494	662
Less: Provision for credit commitments	-	-	(51)	(51)
Total impairment provisions	108	60	443	611
Total net loans	32,256	1,584	21,752	55,592

1 Past due assets are not impaired assets.

2 The NZ Banking Group and the NZ Branch do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.

3 The NZ Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

4 The NZ Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Notes to the consolidated financial statements

Note 6 Deposits

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Deposits at fair value			
Certificates of deposit	1,975	4,417	3,468
Total deposits at fair value	1,975	4,417	3,468
Deposits at amortised cost			
Non-interest bearing, repayable at call	2,517	2,303	2,386
Other interest bearing:			
At call	12,655	13,376	12,987
Term	19,471	17,041	17,571
Total deposits at amortised cost	34,643	32,720	32,944
Total deposits	36,618	37,137	36,412

The NZ Branch held no retail deposits from individuals as at 30 June 2010 (30 June 2009: nil, 30 September 2009: nil).

Note 7 Trading liabilities and other financial liabilities designated at fair value

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Held for trading			
Securities sold short	262	290	418
Securities sold under agreements to repurchase	83	2,167	2,280
Total trading liabilities and other financial liabilities designated at fair value	345	2,457	2,698

Note 8 Debt issues

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Short-term debt			
Commercial paper	8,055	4,580	6,027
Total short-term debt	8,055	4,580	6,027
Long-term debt			
Euro medium-term notes	6,413	4,172	4,139
Domestic medium-term notes	2,261	1,624	2,203
Total long-term debt	8,674	5,796	6,342
Total debt issues	16,729	10,376	12,369
Government guaranteed debt ¹	4,424	2,205	4,129
Non-government guaranteed debt	12,305	8,171	8,240
Total debt issues	16,729	10,376	12,369
Debt issues at amortised cost	8,674	5,184	6,287
Debt issues at fair value	8,055	5,192	6,082
Total debt issues	16,729	10,376	12,369

¹ For further information on government guaranteed debt please refer to Guarantee arrangements on page 3.

Movement in debt issues

The movement in debt issues during these reporting periods is as follows:

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Unaudited \$m
Balance at beginning of the period/year	12,369	11,102	11,102
Issuance	19,921	22,279	29,944
Repayments	(15,561)	(23,005)	(28,677)
Balance at end of the period/year	16,729	10,376	12,369

Certain comparative numbers for the NZ Banking Group have been reclassified due to continuing analysis of debt issues data.

Notes to the consolidated financial statements

Note 9 Related entities

There have been no changes to the composition of the NZ Banking Group since the publication of the General Disclosure Statement for the six months ended 31 March 2010 except that Waratah Securities Australia Limited-NZ Branch, previously one of the consolidated special purpose vehicles used for the NZ Banking Group's securitisation programme, ceased to be a controlled entity from 28 May 2010 when it was wound up. This change has no material impact on the NZ Banking Group's result or financial position.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 30 June 2010 amounted to \$10,542 million (30 June 2009: \$13,131 million, 30 September 2009: \$12,568 million).

Note 10 Commitments and contingent liabilities

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Commitments for capital expenditure			
Due within one year	72	37	25
Other contingent liabilities and commitments			
Direct credit substitutes	314	330	331
Commitments with certain drawdown	179	147	208
Transaction related contingent items	661	763	649
Underwriting and sub-underwriting facilities	-	25	-
Short-term, self-liquidating trade-related contingent liabilities	787	765	740
Other commitments to provide financial services which have an original maturity of one year or more	9,454	9,861	9,884
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,542	6,307	6,134
Total other contingent liabilities and commitments	17,937	18,198	17,946

Comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the underlying commitments and contingent liability data.

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, 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 financial 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 held by the Westpac Home Loan Trust ('HLT') where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform to 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.

Westpac New Zealand guarantees commercial paper and other debt securities issued by its wholly owned subsidiary Westpac Securities NZ Limited, the proceeds of which, in accordance with Reserve Bank guidelines, are immediately on-lent to Westpac New Zealand. Guarantees outstanding as at 30 June 2010 were New Zealand dollar equivalent \$14,380 million (30 June 2009: \$8,754 million, 30 September 2009: \$10,168 million).

Other contingent liabilities

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

On 23 December 2009, the NZ Banking Group reached a settlement with the New Zealand Commissioner of Inland Revenue ('CIR') of the previously reported proceedings relating to nine structured finance transactions undertaken between 1998 and 2002. Under the settlement, the NZ Banking Group agreed to pay the CIR 80% of the full amount of primary tax and interest and with no imposition of penalties. All proceedings have been discontinued and the other terms of the settlement are subject to confidentiality. The NZ Banking Group provided in full for the primary tax and interest claimed by the CIR as part of its 2009 result, and consequently there has been a write back through income tax expense in the nine months ended 30 June 2010.

Westpac (NZ) Investments Limited, a subsidiary of Westpac New Zealand, leases the majority of the properties occupied by the NZ Banking Group. As is normal practice, the lease agreements contain 'make good' provisions, which require Westpac (NZ) Investments Limited, upon termination of a lease, to return the premises to the lessor in the original condition. The maximum amount payable by Westpac (NZ) Investments Limited upon vacation of all leased premises subject to these provisions as at 30 June 2010 was estimated to be \$22 million (30 June 2009: \$22 million, 30 September 2009: \$22 million). No amount has been recognised as the NZ Banking Group believes it is highly unlikely that Westpac (NZ) Investments Limited would incur a material operating loss as a result of this in the normal course of its business operations.

Notes to the consolidated financial statements

Note 10 Commitments and contingent liabilities (continued)

Other commitments

As at 30 June 2010, 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 arrangements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risk. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

Note 11 Segment information

The NZ Banking Group operates predominantly in the consumer banking, business banking and institutional banking sectors within New Zealand. On this basis no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the NZ Banking Group. There is no difference in accounting measurement between the management and legal structures. The operating 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 operating segment. Intersegment pricing is determined on an arm's length basis.

With the adoption of NZ IFRS 8 *Operating Segments* ('NZ IFRS 8'), the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors that the NZ Banking Group operates in New Zealand. The NZ Banking Group does not rely on a major customer for its revenue base.

The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

- Business Banking provides financial services for small to medium size enterprise customers, corporates and agricultural businesses. Business Banking also provides domestic transactional banking to the New Zealand Government.
- Retail Banking provides financial services for private individuals.
- Wealth provides financial services for high net worth individuals, funds management and insurance distribution.
- Institutional Banking provides a broad range of financial services to large corporate, institutional and government customers and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking and Institutional Banking are separately reportable segments.

Reconciling items primarily represent:

- non-material segments that do not meet the definition of operating segments under NZ IFRS 8;
- elimination entries on consolidation/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the financial statements of the NZ Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the financial statements of the NZ Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the financial statements of the NZ Banking Group for statutory financial reporting purposes.

The comparative information has been prepared based on the requirements of NZ IFRS 8.

	NZ Banking Group				
	Nine Months Ended 30 June 2010 – Unaudited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	Total \$m
Revenue from external customers ¹	1,304	2,464	473	(880)	3,361
Internal revenue	3	1	(4)	-	-
Total segment revenue	1,307	2,465	469	(880)	3,361
Profit/(loss) before income tax expense	224	398	182	(147)	657
Income tax expense	(68)	(113)	(56)	226	(11)
Profit after income tax expense	156	285	126	79	646
Profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	156	283	126	79	644
Non-controlling interests	-	2	-	-	2
	156	285	126	79	646
Total gross loans	20,993	29,549	6,914	(279)	57,177
Total deposits	9,128	20,701	4,357	2,432	36,618

¹ Revenue from external customers comprises interest income and non-interest income.

Notes to the consolidated financial statements

Note 11 Segment information (continued)

	NZ Banking Group				Total \$m
	Nine Months Ended 30 June 2009 – Unaudited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	
Revenue from external customers ¹	1,557	2,862	738	(1,026)	4,131
Internal revenue	4	1	(5)	-	-
Total segment revenue	1,561	2,863	733	(1,026)	4,131
(Loss)/profit before income tax expense	(20)	482	197	(148)	511
Income tax credit/(expense)	6	(136)	(59)	(15)	(204)
(Loss)/profit after income tax expense	(14)	346	138	(163)	307
(Loss)/profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	(14)	344	138	(163)	305
Non-controlling interests	-	2	-	-	2
	(14)	346	138	(163)	307
Total gross loans	20,346	27,933	7,843	(217)	55,905
Total deposits	8,651	19,998	2,922	5,566	37,137

	NZ Banking Group				Total \$m
	Year Ended 30 September 2009 – Audited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	
Revenue from external customers ¹	1,983	3,688	884	(1,323)	5,232
Internal revenue	6	1	(5)	(2)	-
Total segment revenue	1,989	3,689	879	(1,325)	5,232
Profit/(loss) before income tax expense	27	638	213	(286)	592
Income tax expense	(8)	(183)	(63)	(832)	(1,086)
Profit/(loss) after income tax expense	19	455	150	(1,118)	(494)
Profit/(loss) after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	19	452	150	(1,118)	(497)
Non-controlling interests	-	3	-	-	3
	19	455	150	(1,118)	(494)
Total gross loans	20,293	28,236	7,732	(58)	56,203
Total deposits	8,738	20,109	3,791	3,774	36,412

¹ Revenue from external customers comprises interest income and non-interest income.

Note 12 Insurance business

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

The following table presents the aggregate amount of the NZ Banking Group's insurance business as at balance date:

	NZ Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Total assets	116	101	109
As a percentage of total assets of the NZ Banking Group	0.16%	0.14%	0.15%

Comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the NZ Banking Group total insurance assets.

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

Notes to the consolidated financial statements

Note 13 Capital adequacy

	30 June 2010 Unaudited %	30 June 2009 Unaudited %
Overseas Banking Group¹		
Tier One Capital ratio	8.9	8.2
Total Capital ratio	10.8	11.0
Overseas Bank (Extended Licensed Entity)¹		
Tier One Capital ratio	9.1	10.1
Total Capital ratio	11.4	12.7

¹ The capital ratios represent information mandated by APRA.

Basel II came into force on 1 January 2008. The Overseas Banking Group received accreditation from APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') and Advanced Measurement Approach ('**AMA**') methodologies for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations, this methodology is referred to as the Basel II (internal models based) approach. With this accreditation, the Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny on these processes.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 30 June 2010. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

The Overseas Banking Group's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an ADI. The Overseas Banking Group considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

The Overseas Banking Group details these considerations through an Internal Capital Adequacy Assessment Process, the key features of which include:

- consideration of both economic (calibrated to the Overseas Banking Group's AA debt rating) and regulatory capital driven requirements;
- a process which challenges the capital measures, coverage and requirements which incorporates a comparison of economic and regulatory requirements and the use of the Quantitative Scenario Analysis (stress testing) framework that considers amongst others, the impact of adverse economic scenarios that threaten the achievement of planned outcomes;
- consideration of the perspectives of external stakeholders such as regulators, rating agencies and equity investors; and
- the development of a capital management strategy including target capital ratios, capital buffers and contingency plans which guide the development of specific capital plans.

Current market conditions and the uncertainty around responses to the global financial crisis require the Overseas Banking Group to maintain conservative levels of capital.

Note 14 Risk management

There have been no material changes to the risk management policies and no new categories of risk to which the NZ Banking Group has become exposed since the publication of the NZ Banking Group's General Disclosure Statement for the six months ended 31 March 2010.

14.1 Credit risk

Risk-weighted exposures

The following risk-weighted exposures are derived in accordance with the Reserve Bank's Capital Adequacy Framework (the 'Framework') as required by the Order.

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.

Notes to the consolidated financial statements

Note 14 Risk management (continued)

The NZ Banking Group and the NZ Branch's credit risk management practice as disclosed in this note is consistent with the Overseas Banking Group's practice. The Overseas Banking Group is accredited to apply the Advanced IRB and AMA methodologies under Basel II. However, under the Order, the NZ Banking Group and the NZ Branch are required to disclose capital under the Basel I approach as outlined in the tables below.

Calculation of on-balance sheet exposures

	NZ Banking Group 30 June 2010 – Unaudited		
	Principal Amount \$m	Risk Weighting	Risk-weighted Exposure \$m
Cash and short-term claims on government	3,570	0%	-
Long-term claims on government	207	10%	21
Claims on banks	2,721	20%	544
Claims on public sector entities	251	20%	50
Residential mortgages	33,830	50%	16,915
Other assets	23,126	100%	23,126
Non-risk-weighted assets	7,619	N/A	-
Total on-balance sheet exposures	71,324		40,656
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	452	50%	226
Total off-balance sheet securitised mortgage exposures	452		226

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	314	100%	314	83%	260
Total direct credit substitutes	314		314		260
Commitments					
Commitments with certain drawdown	179	100%	179	50%	89
Transaction related contingent items	661	50%	331	91%	300
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Short-term, self liquidating trade related contingent liabilities	787	20%	157	100%	157
Other commitments to provide financial services which have an original maturity of one year or more	9,454	50%	4,727	68%	3,196
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,542	0%	-	0%	-
Total commitments	17,623		5,394		3,742
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	54,584		1,598	34%	536
Swaps	48,384		2,723	23%	618
Interest rate contracts:					
Forwards	17,129		1	0%	-
Futures	18,583		-	0%	-
Options	6,634		13	46%	6
Swaps	245,461		5,194	28%	1,480
Total market related contracts (derivatives)	390,775		9,529		2,640
Total off-balance sheet and derivative exposures	408,712		15,237		6,642
Total risk-weighted exposures					47,524

Notes to the consolidated financial statements

Note 14 Risk management (continued)

Calculation of on-balance sheet exposures

	NZ Branch		
	30 June 2010 – Unaudited		
	Principal Amount \$m	Risk Weighting	Risk-weighted Exposure \$m
Cash and short-term claims on government	1,101	0%	-
Long-term claims on government	207	10%	21
Claims on banks	1,524	20%	305
Claims on public sector entities	91	20%	18
Other assets	10,276	100%	10,276
Non-risk-weighted assets	7,670	N/A	-
Total on-balance sheet exposures	20,869		10,620

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	267	100%	267	80%	214
Total direct credit substitutes	267		267		214
Commitments					
Transaction related contingent items	411	50%	205	85%	175
Short-term, self liquidating trade related contingent liabilities	139	20%	28	96%	27
Other commitments to provide financial services which have an original maturity of one year or more	3,374	50%	1,687	85%	1,434
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,006	0%	-	0%	-
Total commitments	5,930		1,920		1,636
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	54,586		1,598	34%	536
Swaps	63,470		3,841	22%	841
Interest rate contracts:					
Forwards	32,889		3	33%	1
Futures	18,583		-	0%	-
Options	6,634		13	46%	6
Swaps	266,345		5,651	28%	1,572
Total market related contracts (derivatives)	442,507		11,106		2,956
Total off-balance sheet and derivative exposures	448,704		13,293		4,806
Total risk-weighted exposures					15,426

Additional mortgage information

The information below relates to the residential mortgage loan-to-value ratios ('LVR') reflected in the capital calculation.

	NZ Banking Group		
	30 June 2010 – Unaudited		
LVR range	0-80%	81-90%	Over 90%
Value of exposures (\$m)	25,759	4,970	2,988

Notes to the consolidated financial statements

Note 14 Risk management (continued)

14.2 Market risk

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'. The peak end-of-day 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 June 2010 (30 June 2009 for comparatives). The end-of-period exposures below have been calculated by determining the end-of-day aggregate market risk as at 30 June 2010 (30 June 2009 for comparatives), and then dividing that amount by the Overseas Banking Group's equity as at 30 June 2010 (30 June 2009 for comparatives).

For each category of market risk, the peak end-of-day notional capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'.

For each category of market risk, the peak end-of-day notional capital charge as a percentage of the Overseas Banking Group's equity is the peak end-of-day notional capital charge for that category of market risk divided by the Overseas Banking Group's equity as at 30 June 2010 (30 June 2009 for comparatives).

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at balance date and the peak end-of-day notional capital charges by risk type for the three months ended 30 June 2010:

	NZ Banking Group					
	30 June 2010 – Unaudited			30 June 2009 – Unaudited		
	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %
End-of-period						
Interest rate risk	2,925	234	0.50	4,088	327	0.74
Foreign currency risk	55	4	0.01	13	1	-
Equity risk	44	4	0.01	36	3	0.01
Peak end-of-day						
Interest rate risk	6,125	490	1.04	7,913	633	1.44
Foreign currency risk	80	6	0.01	63	5	0.01
Equity risk	54	4	0.01	43	3	0.01

Comparative numbers for implied risk-weighted exposure to equity risk have been restated as a result of continuing analysis of the underlying equity data.

Note 15 Concentration of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 30 June 2010 was nil (30 June 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2010 was nil (three months ended 30 June 2009: nil).

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 30 June 2010 was nil (30 June 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2010 was nil (three months ended 30 June 2009: nil).

The peak end-of-day exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at the end of the period. 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 the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of individually assessed provisions.

