# Westpac New Zealand Limited
# General Disclosure Statement

for the six months ended 31 March 2009

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# General information and definitions

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

In this General Disclosure Statement reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its subsidiaries (otherwise referred to as the '**Banking Group**'). As at 31 March 2009, the Bank has the following subsidiaries:
  - Westpac NZ Operations Limited - Holding company
  - Westpac Securities NZ Limited - Funding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - The Warehouse Financial Services Limited - Financial services company
  - Westpac NZ Securitisation Holdings Limited and its subsidiary company - Holding company and funding company

Words and phrases defined by the Order have the same meaning when used in this General Disclosure Statement. All amounts referred to in this General Disclosure Statement are in New Zealand dollars unless otherwise stated.

# General matters

## Registered Bank

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (company number 1763882) on 14 February 2006. The head office of the Bank is situated at, and the address for service of the Bank is, Level 15, 188 Quay Street, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited, a New Zealand company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited, an Australian company. Westpac Overseas Holdings No. 2 Pty Limited is, in turn, a wholly-owned subsidiary of Westpac Banking Corporation ('**Ultimate Parent Bank**'). The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001, and its address for service is Level 20, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Westpac New Zealand Group Limited has a direct qualifying interest in 85% of the voting securities in the Bank. Westpac Overseas Holdings No. 2 Pty Limited has a direct qualifying interest in 15% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the securities of the Bank.

Westpac New Zealand Group Limited has the ability to directly appoint up to 100% of the Board of Directors of the Bank ('**Board**') and, as indirect holding companies of the Bank, each of the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited has the ability to indirectly appoint up to 100% of the Board.

In addition, the Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

All appointments to the Board must be approved by the Reserve Bank of New Zealand (please refer to the Bank's conditions of registration on page 9 of this General Disclosure Statement for details of the Reserve Bank of New Zealand's approval process).

The Bank commenced trading on 1 November 2006 (refer to the section on Westpac in New Zealand on page 3 for more information).

## Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an authorised deposit-taking institution ('**ADI**') under the Banking Act 1959 of Australia ('**Australian Banking Act**') and, as such, is subject to prudential regulation and supervision by the Australian Prudential Regulation Authority ('**APRA**'). APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APRA's Prudential Standard APS 222 (a copy of which is available on APRA's website, www.apra.gov.au). APS 222 includes the following prudential controls:

- the level of the Ultimate Parent Bank's exposure to the Bank (being a related ADI) must not exceed 50% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank (such as a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the board of the Ultimate Parent Bank must have regard to:
  - the level of exposure that would be approved to third parties of broadly equivalent credit status; and
  - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions, and its ability to continue operating, in the event of a failure by the Bank or any other related entity to which it is exposed.

The Ultimate Parent Bank complies with the requirements set by APRA in respect of the extent of financial support that is provided to the Bank.

Section 13A (3) of the Australian Banking Act provides that, in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy, in priority to all other liabilities of the Ultimate Parent Bank:

- first, certain obligations of the Ultimate Parent Bank 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 in the Australian Banking Act) as part of the financial claims scheme ('**FCS**') for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A$1 million in the winding up of the Ultimate Parent Bank;

# General matters (continued)

- secondly, APRA's costs (if any) in exercising its powers and performing its functions relating to the Ultimate Parent Bank in connection with the FCS; and
- thirdly, the Ultimate Parent Bank's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

Under section 16 of the Australian Banking Act, in the winding-up of an ADI, 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. Further, under section 86 of the Reserve Bank Act 1959 of Australia, debts due by a bank to the Reserve Bank of Australia shall, in the winding-up of that bank, have, subject to section 13A(3) of the Australian Banking Act, priority over all other debts, other than debts due to the Commonwealth of Australia.

## Directorate

The Directors of the Bank and their country of residence at the time this General Disclosure Statement was signed were:

**Name:** Peter David Wilson, CA
**Non-executive:** Yes
**Country of Residence:** New Zealand
**Primary Occupation:** Director
**Secondary Occupations:** None
**Board Audit Committee Member:** Yes
**Independent Director:** No[1]

**External Directorships:** Chairman of Kermadec Property Fund Limited. Director of each of The Colonial Motor Company Limited, Farmlands Trading Society Limited and Westpac Banking Corporation. Member of the NZ Markets Disciplinary Tribunal and Chairman of NZX Special Division.

**Name:** Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)
**Non-executive:** Yes
**Country of Residence:** Australia
**Primary Occupation:** Director
**Secondary Occupations:** None
**Board Audit Committee Member:** Yes
**Independent Director:** No[1]

**External Directorships:** Chairman of each of Caltex Australia Limited and UniSuper Limited. Director of each of Westpac Banking Corporation, Australian Institute of Company Directors, Caltex Australia Petroleum Pty Ltd, Caltex Australia Custodians Pty Ltd, E. Bryan Superannuation Fund Pty Ltd and UniSuper Management Pty Ltd.

**Name:** George Frazis, B.Eng. (Elec.) (Hons.), MBA
**Non-executive:** No
**Country of Residence:** New Zealand
**Primary Occupation:** Chief Executive, Westpac New Zealand Limited
**Secondary Occupations:** None
**Board Audit Committee Member:** No
**Independent Director:** No

**External Directorships:** Director of each of White Cap Investments Pty Ltd and Museum of Contemporary Art Ltd.

**Name:** Gail Patricia Kelly, Dip. ED, BA, MBA, Doctor of Bus. (Charles Sturt University)
**Non-executive:** Yes
**Country of Residence:** Australia
**Primary Occupation:** Chief Executive Officer, Westpac Banking Corporation
**Secondary Occupations:** None
**Board Audit Committee Member:** Yes
**Independent Director:** No

**External Directorships:** Director of each of Westpac Banking Corporation, Melbourne Business School Limited, G & A Kelly Investments Pty Limited and Financial Markets Foundation for Children. Member of each of the Financial Services Advisory Council and Australia Bankers' Association.

**Name:** Harold Maffey Price
**Non-executive:** Yes
**Country of Residence:** New Zealand
**Primary Occupation:** Director
**Secondary Occupations:** None
**Board Audit Committee Member:** Yes
**Independent Director:** Yes

**External Directorships:** Director of each of IAG (NZ) Limited and IAG (NZ) Holdings Limited.

**Name:** Ralph Graham Waters, C.P.Eng., F.I.E (AUST), M.Bus.
**Non-executive:** Yes
**Country of Residence:** Australia
**Primary Occupation:** Director
**Secondary Occupations:** None
**Board Audit Committee Member:** Yes
**Independent Director:** Yes

**External Directorships:** Director of each of Fisher & Paykel Appliances Holdings Limited, Fletcher Building Finance Limited, Fletcher Building Limited, Argie Pty Limited, Gragill Pty Limited, Fonterra Co-operative Group Limited, Tyree Holdings Pty Ltd and Tyree Australia Pty Ltd.

1 While Elizabeth Bryan and Peter Wilson are Independent Directors of the Ultimate Parent Bank, they are not Independent Directors of the Bank under the conditions of registration imposed on the Bank.

## General matters (continued)

Since the publication of the Bank's last General Disclosure Statement, Bradley John Cooper has resigned as Director with effect from March 2009 and George Frazis has been appointed as Director and Chief Executive, Westpac New Zealand Limited with effect from March 2009. Bruce McLachlan ceased the role of Chief Executive (Acting), Westpac New Zealand Limited with effect from March 2009.

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

### Conflicts of interest policy

The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are avoided or dealt with. The Bank's policy is consistent with the conflicts of interest policy of the Ultimate Parent Bank and its subsidiaries ('**Ultimate Parent Bank Group**'). Accordingly, each Director must:

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

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

### Interested transactions

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

(a) on terms other than on those that would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

### Solicitors

**Simpson Grierson**
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

### Auditors

**PricewaterhouseCoopers**
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

## Westpac in New Zealand

Until 1 November 2006, the Ultimate Parent Bank operated as a branch in New Zealand. On and from 1 November 2006 the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank ('**NZ Branch**') (carrying on wholesale banking and financial markets business) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). The Bank is a member of the Ultimate Parent Bank Group of companies.

Further information on the NZ Branch is available in Westpac Banking Corporation's General Disclosure Statement for the six months ended 31 March 2009.

## Credit ratings

The 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.

Since the rating was first assigned on 26 October 2007, the credit rating issued by Fitch Ratings for the Bank has not changed. The rating was put on Rating Watch Positive on 6 June 2008 and affirmed at AA- Outlook Stable on 3 December 2008.

In the two years preceding 31 March 2009, the credit rating issued by Standard & Poor's changed from AA- Outlook Stable to AA Outlook Stable on 21 February 2007.

In the two years preceding 31 March 2009, the credit rating issued by Moody's Investors Service changed from Aa3 Outlook Stable to Aa2 Outlook Stable on 4 May 2007.

The current ratings are:

| Rating Agency | Current Credit Rating | Outlook |
|---|---|---|
| Fitch Ratings | AA- | Stable |
| Moody's Investors Service | Aa2 | Stable |
| Standard & Poor's | AA | Stable |

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

## Credit ratings (continued)

### Descriptions of credit rating scales

| | Fitch Ratings | Moody's Investors Service | Standard & Poor's |
|---|---|---|---|
| **The following grades display investment grade characteristics:** | | | |
| Ability to repay principal and interest is extremely strong. This is the highest investment category. | AAA | Aaa | AAA |
| Very strong ability to repay principal and interest. | AA | Aa | AA |
| Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions. | A | A | A |
| Adequate ability to repay principal and interest. More vulnerable to adverse changes. | BBB | Baa | BBB |
| **The following grades have predominantly speculative characteristics:** | | | |
| Significant uncertainties exist which could affect the payment of principal and interest on a timely basis. | BB | Ba | BB |
| Greater vulnerability and therefore greater likelihood of default. | B | B | B |
| Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions. | CCC | Caa | CCC |
| Highest risk of default. | CC | Ca to C | CC to C |
| Obligations currently in default. | C | - | D |

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

## Supplemental disclosure statement

A copy of the Bank's most recent Supplemental Disclosure Statement will be provided immediately, free of charge, to any person requesting a copy where the request is made at the Bank's head office, Level 15, 188 Quay Street, Auckland. It is also available, free of charge, at the internet address www.westpac.co.nz or within five working days of any request, at any branch of the Bank and at any staffed premises of an agency of the Bank, primarily engaged in the business of the Bank, or other staffed premises of the Bank, to which its customers have access in order to conduct banking business.

The Bank's most recent Supplemental Disclosure Statement contains a copy of each of the bilateral netting agreements (refer to Note 48), a copy of the Crown Deed of Guarantee and Supplemental Deed to the Crown Deed of Guarantee between the Bank and the New Zealand Government (refer to page 5) and a copy of the Crown Wholesale Funding Guarantee granted by the New Zealand Government in respect of the Bank (refer to page 5).

# Historical summary of financial statements

| | The Banking Group | | | |
|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Year Ended 30 September 2008 Audited $m | Year Ended 30 September 2007[1] Audited $m | Period from 14 February 2006 to 30 September 2006 Audited $m |
| **Income statement** | | | | |
| Interest income | **2,145** | 4,327 | 3,337 | 15 |
| Interest expense | **(1,445)** | (3,052) | (2,297) | (5) |
| **Net interest income** | **700** | 1,275 | 1,040 | 10 |
| Non-interest income | **185** | 428 | 330 | - |
| **Net operating income** | **885** | 1,703 | 1,370 | 10 |
| Operating expenses | **(341)** | (709) | (605) | - |
| Impairment charges on loans | **(316)** | (170) | (85) | - |
| **Profit before income tax expense** | **228** | 824 | 680 | 10 |
| Income tax expense | **(66)** | (262) | (231) | (3) |
| **Profit after income tax expense** | **162** | 562 | 449 | 7 |
| Profit after income tax expense attributable to minority interests | **(2)** | (3) | (3) | - |
| **Profit after income tax expense attributable to equity holders of the Banking Group** | **160** | 559 | 446 | 7 |
| Dividends paid or provided | **(324)** | (331) | (217) | - |
| **(Loss)/profit retained** | **(164)** | 228 | 229 | 7 |
| **Balance sheet** | | | | |
| Total assets | **54,368** | 52,295 | 47,023 | 2,415 |
| Total impaired assets | **710** | 278 | 116 | - |
| Total liabilities | **50,720** | 47,380 | 44,317 | 708 |
| Total equity | **3,648** | 4,915 | 2,694 | 1,707 |

1 The financial performance includes the trading result of the Bank as a registered bank for 11 months.

The first accounting period for the Bank and the Banking Group was the period from 14 February 2006 to 30 September 2006.

# Guarantee arrangements

Certain material obligations of the Bank are guaranteed as at the date the Directors signed this General Disclosure Statement.

## Government guarantees

The Bank has a guarantee under the New Zealand deposit guarantee scheme ('**Deposit Guarantee Scheme**'). The Bank and the New Zealand Government ('**Crown**') entered into a Crown Deed of Guarantee on 11 November 2008 pursuant to the Deposit Guarantee Scheme, which was amended by a Supplemental Deed dated 24 November 2008 (together '**Deposit Guarantee**').

The Bank also has a guarantee under the New Zealand wholesale funding guarantee facility ('**Wholesale Funding Guarantee Facility**'). The Bank and the Crown have entered into a Crown Wholesale Funding Guarantee Facility Deed dated 23 February 2009. The Crown has also provided a Crown Wholesale Funding Guarantee in respect of the Bank by deed dated 23 February 2009 ('**Wholesale Guarantee**') and has issued a Guarantee Eligibility Certificate in respect of certain liabilities of the Bank pursuant to the Wholesale Guarantee.

The following descriptions of the Deposit Guarantee and the Wholesale Guarantee ('**Government Guarantees**') are for general information purposes only, and do not purport to be exhaustive or definitive. For full information on the terms of the Government Guarantees, reference should be made to the Guarantees, a copy of each of which is included in the Bank's Supplemental Disclosure Statement.

The guarantor of the Bank's obligations under the Guarantees is the Crown. The Crown's address for service in relation to the Deposit Guarantee, is 1 The Terrace, Wellington, New Zealand.

The Crown's address for service in relation to the Wholesale Guarantee is:

(i) Minister of Finance, Parliament Buildings, Wellington; or

(ii) New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or

(iii)New Zealand Consul and Trade Commissioner at the address of the New Zealand Consulate-General in New York for the time being,

in each case with a copy (made by delivery by hand or facsimile) to The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Guarantees may be obtained from the Treasury internet site www.treasury.govt.nz. The most recent audited financial statements of the Crown may also be obtained from the Treasury internet site.

# Guarantee arrangements (continued)

The Crown has the following credit ratings in respect of its long-term obligations payable in New Zealand dollars. There have not been any changes to the ratings in the two years immediately before the latest Crown balance date. The outlook for each of the ratings is stable.

| Rating Agency | The Crown's Current Credit Rating |
|---|---|
| Moody's Investors Service | Aaa |
| Standard & Poor's | AAA |
| Fitch Ratings | AAA |

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

For an explanation of the credit rating scales see the table under the sub-heading "Descriptions of credit rating scales" on page 4 of this General Disclosure Statement.

### *Obligations guaranteed*

The obligations guaranteed by the Crown under the Deposit Guarantee are obligations of the Bank to pay money (whether present or future) to a Creditor (as defined below) under debt securities ('**Indebtedness**').

Subject to the terms of the Deposit Guarantee, the Crown:

(i) guarantees to each Creditor from time to time, the due and punctual payment by the Bank of:

(a) all Indebtedness that becomes due and payable between 12 October 2008 and 11 October 2010 (inclusive) ('**Guarantee Period**'); and

(b) if a default event of any of the types specified in paragraphs (b) to (g) (inclusive) of the definition of "Default Event" in the Deposit Guarantee occurs during the Guarantee Period, all Indebtedness that exists on the date of that Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period) and all interest accruing thereon in accordance with the terms of that Indebtedness; and

(ii) undertakes to each Creditor from time to time that, if the Bank does not pay to any Creditor any Indebtedness or interest guaranteed when due and payable, then the Crown will pay the amount of that Indebtedness or interest to the Creditor when due and payable (except to the extent that the Indebtedness or interest is not paid solely as a result of administrative or technical error and is subsequently paid within seven days of its due date).

In this context a '**Creditor**' is anyone to whom the Bank has an obligation to pay money (whether present or future) under a debt security, excluding:

(i) a 'Related Party' of the Bank, as that term is defined in section 157B of the Reserve Bank Act, as if:

(a) the Bank was a 'deposit taker'; and

(b) 'related party' included anyone who is a subsidiary of, or who is (or whose business or affairs are substantially) controlled by, any person of whom the Bank is a subsidiary or by whom the Bank is (or its business or affairs are substantially) controlled;

(ii) a 'financial institution', as that term is defined in section 2 of the Reserve Bank Act and including:

(a) a 'collective investment scheme' as that term is defined in section 157B of the Reserve Bank Act (as if that term also included any 'superannuation fund' or 'superannuation scheme' as those terms are defined in section YA1 of the Income Tax Act 2007) or an issuer, trustee or manager of any such scheme acting in that capacity;

(b) an 'insurer' as that term is defined in section 2 of the Insurance Companies (Ratings and Inspections) Act 1994 or anyone carrying on the business of providing insurance cover (of whatever nature);

(c) anyone carrying on business as a sharebroker, an investment adviser or a fund manager (to the extent that person is acting in that capacity); or

(d) anyone who is a subsidiary of, or who is (or whose business or affairs are substantially) controlled by, a financial institution within (a), (b) or (c) above; and

(iii) subject to (v) below, anyone acting (directly or indirectly) as a nominee of, or a trustee for, anyone referred to in (i) or (ii) above,

but including:

(iv) anyone designated by the Crown, in accordance with the Deposit Guarantee, to be a 'Nominated Beneficiary' for the purposes of the Deposit Guarantee; and

(v) if a person ('A') would be a Creditor if directly owed Indebtedness by the Bank, any person ('B') who is bare trustee for A (to the extent that B is acting in that capacity).

A debt security generally means any interest in or right to be paid money that is, or is to be, deposited with or lent to any person (whether or not the interest or right is secured by a charge over any property). It includes deposits, term deposits, current accounts, bonds, bank bills and debentures.

Subordinated debt is not covered by the Deposit Guarantee. Subordinated debt refers to obligations of the Bank which in terms of priority of payment and otherwise on a winding-up, dissolution or liquidation of the Bank would rank behind the unsecured unsubordinated obligations of the Bank.

## Guarantee arrangements (continued)

#### *Limits on the amount of obligations guaranteed*

The maximum liability of the Crown to each Creditor under the Deposit Guarantee is $1 million, or such other amount as may be specified in respect of a 'Nominated Beneficiary' pursuant to the Deposit Guarantee. The $1 million cap is on individual Creditors (e.g. a natural person or company), not on individual bank accounts.

#### *Material conditions applicable to the guarantee*

The following is a summary of material conditions applicable to the Deposit Guarantee other than non-performance by the Bank.

Except to the extent agreed in writing by the Crown, the Crown will not be liable to any Creditor under the Deposit Guarantee if, as at 11 November 2008, a '**Default Event**' (as that term is defined in the Deposit Guarantee) with respect to the Bank has occurred and is continuing unremedied. Also, any Indebtedness which arises following a Default Event, other than interest accruing on Indebtedness existing at the Default Event, is not covered by the Deposit Guarantee, except to the extent otherwise agreed by the Crown in writing.

The Crown will not be obliged to make a payment to a Creditor under the Deposit Guarantee unless and until the Crown:

(i) receives a notice of claim from the Creditor in respect of relevant Indebtedness; and

(ii) has satisfied itself as to the amount of the Indebtedness and as to such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Deposit Guarantee in respect of that Indebtedness.

Where the Bank's Indebtedness is or becomes the subject of any guarantee, indemnity or other arrangement under which it is effectively guaranteed, or the relevant Creditor is effectively indemnified in respect of any non-payment of that indebtedness by any other person, the Bank must notify the Crown of that arrangement. The Bank must also use all reasonable endeavours to ensure that Creditors claim under that other arrangement before claiming against the Crown under the Deposit Guarantee and/or that the Crown has the benefit of that other arrangement in respect of any amounts paid to Creditors under the Deposit Guarantee.

#### *Expiry and withdrawal of the guarantee*

The Deposit Guarantee, in its current form, is due to expire at the end of 11 October 2010. The Deposit Guarantee may be withdrawn by the Crown in certain circumstances. The Bank does not have an option to roll over or renew the Deposit Guarantee.

Where the Bank fails to comply with:

(i) certain information requests from the Crown;

(ii) any prudential supervision direction, notice or requirement under the Reserve Bank Act or otherwise; or

(iii)the terms of any trust deed for debt securities issued by the Bank,

and the appropriate notice has been given by the Crown pursuant to the Deposit Guarantee, the Crown may withdraw the Deposit Guarantee.

Under the Deposit Guarantee, if the Crown reasonably considers that the business or affairs of the Bank or any member of the Banking Group are being, or are intended or likely to be, carried on in a manner which will or may extend the effective benefit of the Deposit Guarantee to persons who are not intended to receive that benefit or is or would be otherwise inconsistent with the intentions of the Crown in entering into the Deposit Guarantee, the Crown may withdraw the Deposit Guarantee by written notice to the Bank. Upon such a withdrawal, the Deposit Guarantee will not cover Indebtedness to a Creditor who is concerned in, and has or ought to have knowledge of, the activities described in this paragraph.

The Crown may also withdraw the Deposit Guarantee for any other reason by written notice to the Bank provided that it first offers to enter into a new guarantee, effective from the date of withdrawal of the Deposit Guarantee, with the Bank on terms the Crown reasonably considers to be not materially adverse to Creditors generally as compared to the Deposit Guarantee.

The Deposit Guarantee does not cover Indebtedness which arises following the date of a withdrawal (other than interest accruing on Indebtedness existing at the date of withdrawal).

#### *Guarantee fees*

Under the Deposit Guarantee, the Bank was required to pay a fee of 10 basis points (or 0.1%) on the amounts owing to Creditors to the extent that the amount owing exceeded $5 billion as at 12 October 2008. An additional 10 basis point fee is payable in respect of the position as at 12 October 2009.

### Wholesale guarantee

#### *Obligations guaranteed*

The obligations guaranteed by the Crown under the Wholesale Guarantee are obligations of the Bank to pay money to a Beneficiary (as defined below) under a Guaranteed Liability. A Guaranteed Liability is a liability to pay principal or interest in respect of which the Crown has issued a Guarantee Eligibility Certificate under the Wholesale Guarantee, but excluding any penalty interest or other amount only payable following a default.

Subject to the terms of the Wholesale Guarantee, including the material conditions described below under the heading "Material conditions applicable to the guarantee", under the Wholesale Guarantee the Crown irrevocably:

(i) guarantees to each Beneficiary the payment by the Bank of the Guaranteed Liabilities owed to that Beneficiary; and

(ii) undertakes to each Beneficiary that, if the Bank does not pay any Guaranteed Liability owed to that Beneficiary on its due date, the Crown will, within five business days of demand being made in accordance with the terms of the Wholesale Guarantee and following the expiry of any applicable grace period, pay that Guaranteed Liability.

## Guarantee arrangements (continued)

In this context, a Beneficiary means each person to whom a Guaranteed Liability is from time to time owed, excluding:

(i) a 'Related Party' of the Bank as that term is defined in section 157B of the Reserve Bank Act, as if:

(a) the Bank was a 'deposit taker'; and

(b) 'related party' included anyone who is a subsidiary of, or who is (or whose business or affairs are substantially) controlled by, any person of whom the Bank is a subsidiary or by whom the Bank is (or its business or affairs are substantially) controlled; and

(ii) anyone acting (directly or indirectly) as a nominee of or trustee for anyone referred to in (i).

As at the date this General Disclosure Statement is signed, the Crown has issued a Guarantee Eligibility Certificate in respect of up to U.S.$1.5 billion of debt securities ('**Debt Securities**') to be issued after 22 May 2009 and on or before 19 June 2009 by Westpac Securities NZ Limited, acting through its London Branch, and guaranteed by the Bank under the U.S.$7.5 billion European Medium Term Note Programme constituted by Base Prospectus dated 19 December 2008 (as supplemented by supplements to the Base Prospectus dated 3 March 2009, 18 May 2009 and 20 May 2009) and by Offering Memorandum dated 21 May 2009.

### *Limits on the amount of obligations guaranteed*

The aggregate principal amount of Debt Securities the subject of the Guarantee Eligibility Certificates may not exceed U.S.$1.5 billion.

### *Material conditions applicable to the guarantee*

The material conditions applicable to the Wholesale Guarantee, other than non-performance by the Bank, are summarised below.

(i) The Crown will not be liable in respect of any Guaranteed Liability which has been varied, amended, waived, released, novated, supplemented, extended or restated in any respect without the prior written consent of the Crown.

(ii) The Crown is not obliged to make a payment under the Wholesale Guarantee unless and until the Crown receives a written demand for that payment that is:

(a) delivered to the Crown in accordance with the terms of the Wholesale Guarantee or in such other manner as the Crown may from time to time agree;

(b) in the form set out in Schedule 2 of the Wholesale Guarantee; and

(c) signed by a Beneficiary or, if there is a trustee in respect of the relevant Guaranteed Liability, by that trustee (or, as the case may be, a duly authorised agent of that Beneficiary or trustee).

(iii) Special conditions may be specified in the Guarantee Eligibility Certificate in respect of a particular Guaranteed Liability.

### *Expiry and withdrawal of the guarantee*

In respect of each Guaranteed Liability, the guarantee under the Wholesale Guarantee will expire at midnight on the date falling 30 days after the earlier of:

(i) the scheduled maturity date of the security under which that Guaranteed Liability arises; and

(ii) the date falling five years after the issue date of the security under which that Guaranteed Liability arises.

There is no provision for the withdrawal of the Wholesale Guarantee in respect of a Guaranteed Liability.

### *Guarantee fees*

The Bank is required to pay a fee in respect of each Guarantee Eligibility Certificate, fixed at the discretion of the Crown. The Crown has published an indicative fee schedule on the Treasury internet site www.treasury.govt.nz, but this schedule is not binding on the Crown.

## Pending proceedings or arbitration

With the exception of the proceedings mentioned below, there are no legal proceedings pending at the date of this General Disclosure Statement that may have a material adverse effect on the Banking Group or the Bank.

The New Zealand Commerce Commission has issued proceedings against the Bank and The Warehouse Financial Services Limited (a member of the Banking Group), among others, in relation to interchange fees and rules. In addition, a number of New Zealand retailers have issued similar proceedings. Proceedings have also been filed by the NZ Branch and a number of subsidiaries of the Ultimate Parent Bank in New Zealand against the New Zealand Inland Revenue Department ('**NZIRD**') in which the NZ Branch and those subsidiaries of the Ultimate Parent Bank are disputing the amended tax assessments received for the 1999 to 2005 tax years from the NZIRD in relation to its investigation of certain structured finance transactions. Proceedings disputing all amended assessments have been commenced.

A description of these proceedings and other contingent liabilities of the Banking Group and the Bank is set out in Note 32 to the financial statements included in this General Disclosure Statement.

## Conditions of registration

The conditions of registration imposed on the Bank, which applied from 31 December 2008, are as follows:

1. That the Banking Group complies with the following requirements:

   (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than 8%;

   (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than 4%; and

   (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is not less than $30 million.

   For the purposes of this condition of registration, the scalar referred to in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is 1.06.

   For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is the sum of:

   (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

   (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where

      (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from Tier One Capital, plus deductions from Total Capital, all calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (Basel I approach)' (BS2) dated March 2008;

      (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from Tier One Capital, plus deductions from Total Capital, less any amount included in Tier Two Capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

      (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off-balance sheet credit exposures) +12.5 x total capital charge for market risk exposure +12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

1A. That –

   (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('**ICAAP**')' (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and Total Capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and

   (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

2. That the 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.

3. That the 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 a 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 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 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.

## Conditions of registration (continued)

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit rating[1] | Connected exposure limit (Percentage of the Banking Group's Tier One Capital) |
|---|---|
| AA/Aa2 and above | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposures Policy' (BS8) dated March 2008.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the registered bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.
7. That the chairperson of the Bank's Board is not an employee of the registered bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, 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.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

   (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

   (b) that the Bank's financial risk positions on a day can be identified on that day;

   (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

   (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.

   Until 30 June 2009, functions provided to the Bank by Electronic Transaction Services Limited and Interchange and Settlement Limited are not covered by this condition.
12. (a) that the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank.

   (b) that the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank.

   (c) that by 31 December 2007 all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's Capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.

For the purposes of these conditions of registration, the term "Banking Group" means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993.

1 This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service (Fitch Ratings' scale is identical to Standard & Poor's).

# Conditions of registration (continued)

## Review of operating model

Consistent with its responsibilities as a host country regulator supervising a number of banks owned by foreign domiciled financial institutions, for systemically important banks such as the Bank, the Reserve Bank of New Zealand relies on prudential requirements intended to promote appropriate separation between the interests of the owners of such banks and the banks themselves. It does this through its local incorporation and outsourcing policies. These requirements include governance arrangements requiring the directors of locally incorporated banks to act in the best interests of the bank, and therefore in a way more likely to retain value in the New Zealand entity. There is also supervision of (amongst other things) exposures between the local bank and its parent and delegation of key management and board responsibilities from the local bank to its parent. Until 1 November 2006, the Ultimate Parent Bank conducted its operations within New Zealand in a branch structure. On that date, and after extensive consultation with the Reserve Bank of New Zealand, the Ultimate Parent Bank adopted a dual registration operating model including a locally incorporated subsidiary, the Bank, to conduct its retail and business banking activities in New Zealand; and a branch, the NZ Branch. The Bank and the NZ Branch's conditions of registration are consistent with these operating model arrangements. In 2008, it became apparent that both the Bank and the NZ Branch had been non-compliant with their conditions of registration. Consequently, the Reserve Bank of New Zealand has asked that the Ultimate Parent Bank reviews the structure of its operating model to ensure that it is able to sustain durable compliance with the Reserve Bank of New Zealand's prudential policies. Accordingly, it has been agreed that an independent review will take place, with the terms of reference for the review being established through consultation between the Reserve Bank of New Zealand, the Bank and the NZ Branch. It is anticipated that this review will be conducted under the well established processes and framework of section 95 of the Reserve Bank Act. The Board anticipates that any consequent operating model and governance changes will be appropriately outlined in the Bank's and the NZ Branch's General Disclosure Statements for the year ending 30 September 2009.

# Directors' statement

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

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry that, over the six months ended 31 March 2009:

(a) subject to Review of operating model paragraph on page 11, the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;

(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

(c) the Bank had systems in place to monitor and control adequately the 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 by all the Directors:

Peter David Wilson

Elizabeth Blomfield Bryan

George Frazis

Gail Patricia Kelly

Harold Maffey Price

Ralph Graham Waters

Dated this the 27th day of May 2009

# Financial statements

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# Income statements for the six months ended 31 March 2009

| | Note | The Banking Group Six Months Ended 31 March 2009 Unaudited $m | The Banking Group Six Months Ended 31 March 2008 Unaudited $m | The Banking Group Year Ended 30 September 2008 Audited $m | The Bank Six Months Ended 31 March 2009 Unaudited $m | The Bank Six Months Ended 31 March 2008 Unaudited $m | The Bank Year Ended 30 September 2008 Audited $m |
|---|---|---|---|---|---|---|---|
| Interest income | 2 | **2,145** | 2,098 | 4,327 | **2,133** | 2,085 | 4,301 |
| Interest expense | 2 | **(1,445)** | (1,498) | (3,052) | **(1,442)** | (1,495) | (3,054) |
| **Net interest income** | | **700** | 600 | 1,275 | **691** | 590 | 1,247 |
| Non-interest income: | | | | | | | |
| Fees and commissions | 3 | **157** | 165 | 321 | **155** | 159 | 314 |
| Gain/(loss) on ineffective hedges | 3 | **2** | (1) | (1) | **2** | (1) | (1) |
| Share of net profit of associate | 3 | **-** | 48 | 48 | **-** | - | - |
| Other non-interest income | 3 | **26** | 13 | 60 | **73** | 13 | 59 |
| **Total non-interest income** | | **185** | 225 | 428 | **230** | 171 | 372 |
| **Net operating income** | | **885** | 825 | 1,703 | **921** | 761 | 1,619 |
| Operating expenses | 4 | **(341)** | (333) | (709) | **(337)** | (331) | (704) |
| Impairment charges on loans | 6 | **(316)** | (61) | (170) | **(316)** | (60) | (167) |
| **Profit before income tax expense** | | **228** | 431 | 824 | **268** | 370 | 748 |
| Income tax expense | 7 | **(66)** | (131) | (262) | **(63)** | (126) | (253) |
| **Profit after income tax expense** | | **162** | 300 | 562 | **205** | 244 | 495 |
| Profit after income tax expense attributable to minority interests | | **(2)** | (1) | (3) | **-** | - | - |
| **Profit after income tax expense attributable to equity holders of the Banking Group** | | **160** | 299 | 559 | **205** | 244 | 495 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Statements of changes in equity for the six months ended 31 March 2009

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital $m | Retained Profits $m | Cash Flow Hedge Reserve $m | Available-for-Sale Securities Reserve $m | Minority Interests $m | Total $m |
| **As at 1 October 2007 (audited)** | 2,415 | 236 | 21 | - | 9 | 2,681 |
| **Effect of change in accounting policy** | | | | | | |
| Adjustment on recognition of actuarial gains on employee defined benefit superannuation plans (Note 1.3) | - | 19 | - | - | - | 19 |
| Income tax effect | - | (6) | - | - | - | (6) |
| **Total effect of change in accounting policy** | - | 13 | - | - | - | 13 |
| **Restated total equity as at 1 October 2007 (unaudited)** | 2,415 | 249 | 21 | - | 9 | 2,694 |
| **Six months ended 31 March 2008** | | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | - | - | - | 11 | - | 11 |
| Net losses from changes in fair value of cash flow hedges | - | - | (8) | - | - | (8) |
| Income tax effect | - | - | 3 | - | - | 3 |
| Transferred to income statement | - | - | - | - | - | - |
| Income tax effect | - | - | - | - | - | - |
| Profit after income tax expense | - | 299 | - | - | 1 | 300 |
| **Total recognised income and expenses for the six months ended 31 March 2008** | - | 299 | (5) | 11 | 1 | 306 |
| Share capital issued | 1,385 | - | - | - | - | 1,385 |
| Dividends paid or provided | - | (231) | - | - | - | (231) |
| Other minority interests | - | - | - | - | (5) | (5) |
| **As at 31 March 2008** | 3,800 | 317 | 16 | 11 | 5 | 4,149 |
| **Effect of change in accounting policy** | | | | | | |
| Adjustment on recognition of actuarial losses on employee defined benefit superannuation plans (Note 1.3) | - | (17) | - | - | - | (17) |
| Income tax effect | - | 5 | - | - | - | 5 |
| **Total effect of change in accounting policy** | - | (12) | - | - | - | (12) |
| **Restated total equity as at 31 March 2008 (unaudited)** | 3,800 | 305 | 16 | 11 | 5 | 4,137 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Statements of changes in equity (continued) for the six months ended 31 March 2009

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | Share Capital $m | Retained Profits $m | Cash Flow Hedge Reserve $m | Available-for-Sale Securities Reserve $m | Minority Interests $m | Total $m |
| **As at 1 October 2007 (audited)** | 2,415 | 236 | 21 | - | 9 | 2,681 |
| **Effect of change in accounting policy** | | | | | | |
| Adjustment on recognition of actuarial gains on employee defined benefit superannuation plans (Note 1.3) | - | 19 | - | - | - | 19 |
| Income tax effect | - | (6) | - | - | - | (6) |
| **Total effect of change in accounting policy** | - | 13 | - | - | - | 13 |
| **Restated total equity as at 1 October 2007 (unaudited)** | 2,415 | 249 | 21 | - | 9 | 2,694 |
| **Year ended 30 September 2008** | | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | - | - | - | 16 | - | 16 |
| Net losses from changes in fair value of cash flow hedges | - | - | (36) | - | - | (36) |
| Income tax effect | - | - | 12 | - | - | 12 |
| Transferred to income statement | - | - | - | - | - | - |
| Income tax effect | - | - | - | - | - | - |
| Profit after income tax expense | - | 559 | - | - | 3 | 562 |
| **Total recognised income and expenses for the year ended 30 September 2008** | - | 559 | (24) | 16 | 3 | 554 |
| Share capital issued | 2,135 | - | - | - | - | 2,135 |
| Dividends paid or provided | - | (331) | - | - | - | (331) |
| Subvention distribution (net of tax) | - | (100) | - | - | - | (100) |
| Other minority interests | - | - | - | - | (4) | (4) |
| **As at 30 September 2008 (audited)** | 4,550 | 377 | (3) | 16 | 8 | 4,948 |
| **Effect of change in accounting policy** | | | | | | |
| Adjustment on recognition of actuarial losses on employee defined benefit superannuation plans (Note 1.3) | - | (49) | - | - | - | (49) |
| Income tax effect | - | 16 | - | - | - | 16 |
| **Total effect of change in accounting policy** | - | (33) | - | - | - | (33) |
| **Restated total equity as at 30 September 2008 (unaudited)** | 4,550 | 344 | (3) | 16 | 8 | 4,915 |
| **Six months ended 31 March 2009** | | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | **-** | **-** | **-** | **3** | **-** | **3** |
| Net losses from changes in fair value of cash flow hedges | **-** | **-** | **(33)** | **-** | **-** | **(33)** |
| Income tax effect | **-** | **-** | **10** | **-** | **-** | **10** |
| Transferred to income statement | **-** | **-** | **(1)** | **-** | **-** | **(1)** |
| Income tax effect | **-** | **-** | **-** | **-** | **-** | **-** |
| Profit after income tax expense | **-** | **160** | **-** | **-** | **2** | **162** |
| **Total recognised income and expenses for the six months ended 31 March 2009** | **-** | **160** | **(24)** | **3** | **2** | **141** |
| Share capital issued | **220** | **-** | **-** | **-** | **-** | **220** |
| Share capital redeemed | **(1,300)** | **-** | **-** | **-** | **-** | **(1,300)** |
| Dividends paid or provided | **-** | **(324)** | **-** | **-** | **-** | **(324)** |
| Other minority interests | **-** | **-** | **-** | **-** | **(4)** | **(4)** |
| **As at 31 March 2009 (unaudited)** | **3,470** | **180** | **(27)** | **19** | **6** | **3,648** |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

## Statements of changes in equity (continued) for the six months ended 31 March 2009

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Share Capital $m | Retained Profits $m | Cash Flow Hedge Reserve $m | Available-for-Sale Securities Reserve $m | Total $m |
| **As at 1 October 2007 (audited)** | 2,415 | 225 | 21 | - | 2,661 |
| **Effect of change in accounting policy** | | | | | |
| Adjustment on recognition of actuarial gains on employee defined benefit superannuation plans (Note 1.3) | - | 19 | - | - | 19 |
| Income tax effect | - | (6) | - | - | (6) |
| **Total effect of change in accounting policy** | - | 13 | - | - | 13 |
| **Restated total equity as at 1 October 2007 (unaudited)** | 2,415 | 238 | 21 | - | 2,674 |
| **Six months ended 31 March 2008** | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | - | - | - | 11 | 11 |
| Net losses from changes in fair value of cash flow hedges | - | - | (8) | - | (8) |
| Income tax effect | - | - | 3 | - | 3 |
| Transferred to income statement | - | - | - | - | - |
| Income tax effect | - | - | - | - | - |
| Profit after income tax expense | - | 244 | - | - | 244 |
| **Total recognised income and expenses for the six months ended 31 March 2008** | - | 244 | (5) | 11 | 250 |
| Share capital issued | 1,385 | - | - | - | 1,385 |
| Dividends paid or provided | - | (231) | - | - | (231) |
| **As at 31 March 2008** | 3,800 | 251 | 16 | 11 | 4,078 |
| **Effect of change in accounting policy** | | | | | |
| Adjustment on recognition of actuarial losses on employee defined benefit superannuation plans (Note 1.3) | - | (17) | - | - | (17) |
| Income tax effect | - | 5 | - | - | 5 |
| **Total effect of change in accounting policy** | - | (12) | - | - | (12) |
| **Restated total equity as at 31 March 2008 (unaudited)** | 3,800 | 239 | 16 | 11 | 4,066 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Statements of changes in equity (continued) for the six months ended 31 March 2009

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Share Capital $m | Retained Profits $m | Cash Flow Hedge Reserve $m | Available-for-Sale Securities Reserve $m | Total $m |
| **As at 1 October 2007 (audited)** | 2,415 | 225 | 21 | - | 2,661 |
| **Effect of change in accounting policy** | | | | | |
| Adjustment on recognition of actuarial gains on employee defined benefit superannuation plans (Note 1.3) | - | 19 | - | - | 19 |
| Income tax effect | - | (6) | - | - | (6) |
| **Total effect of change in accounting policy** | - | 13 | - | - | 13 |
| **Restated total equity as at 1 October 2007 (unaudited)** | 2,415 | 238 | 21 | - | 2,674 |
| **Year ended 30 September 2008** | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | - | - | - | 16 | 16 |
| Net losses from changes in fair value of cash flow hedges | - | - | (36) | - | (36) |
| Income tax effect | - | - | 12 | - | 12 |
| Transferred to income statement | - | - | - | - | - |
| Income tax effect | - | - | - | - | - |
| Profit after income tax expense | - | 495 | - | - | 495 |
| **Total recognised income and expenses for the year ended 30 September 2008** | - | 495 | (24) | 16 | 487 |
| Share capital issued | 2,135 | - | - | - | 2,135 |
| Dividends paid or provided | - | (331) | - | - | (331) |
| Subvention distribution (net of tax) | - | (100) | - | - | (100) |
| **As at 30 September 2008 (audited)** | 4,550 | 302 | (3) | 16 | 4,865 |
| **Effect of change in accounting policy** | | | | | |
| Adjustment on recognition of actuarial losses on employee defined benefit superannuation plans (Note 1.3) | - | (49) | - | - | (49) |
| Income tax effect | - | 16 | - | - | 16 |
| **Total effect of change in accounting policy** | - | (33) | - | - | (33) |
| **Restated total equity as at 30 September 2008 (unaudited)** | 4,550 | 269 | (3) | 16 | 4,832 |
| **Six months ended 31 March 2009** | | | | | |
| Net gains from changes in fair value of available-for-sale securities (net of tax) | **-** | **-** | **-** | **3** | **3** |
| Net losses from changes in fair value of cash flow hedges | **-** | **-** | **(33)** | **-** | **(33)** |
| Income tax effect | **-** | **-** | **10** | **-** | **10** |
| Transferred to income statement | **-** | **-** | **(1)** | **-** | **(1)** |
| Income tax effect | **-** | **-** | **-** | **-** | **-** |
| Profit after income tax expense | **-** | **205** | **-** | **-** | **205** |
| **Total recognised income and expenses for the six months ended 31 March 2009** | **-** | **205** | **(24)** | **3** | **184** |
| Share capital issued | **220** | **-** | **-** | **-** | **220** |
| Share capital redeemed | **(1,300)** | **-** | **-** | **-** | **(1,300)** |
| Dividends paid or provided | **-** | **(324)** | **-** | **-** | **(324)** |
| **As at 31 March 2009 (unaudited)** | **3,470** | **150** | **(27)** | **19** | **3,612** |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Balance sheets as at 31 March 2009

| | | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|---|
| | Note | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | | **320** | 137 | 110 | **320** | 133 | 110 |
| Due from other financial institutions | 9 | **3** | 2 | 3 | **-** | - | - |
| Derivative financial instruments | 29 | **26** | 2 | 12 | **26** | 2 | 12 |
| Other trading securities | 10 | **4,652** | 1,356 | 1,973 | **4,652** | 1,356 | 1,973 |
| Available-for-sale securities | 11 | **38** | 30 | 35 | **38** | 30 | 35 |
| Loans | 12, 13, 14 | **47,793** | 45,012 | 46,795 | **47,621** | 44,822 | 46,617 |
| Due from related entities | 28 | **453** | 2,352 | 2,349 | **8,385** | 2,222 | 2,305 |
| Investments in related entities | 28 | **-** | - | - | **281** | 238 | 238 |
| Investment in associate | 28 | **48** | 48 | 48 | **-** | - | - |
| Goodwill and other intangible assets | 15 | **572** | 595 | 579 | **572** | 595 | 579 |
| Property, plant and equipment | 16 | **90** | 82 | 76 | **10** | 15 | 11 |
| Deferred tax assets | 17 | **216** | 93 | 132 | **203** | 82 | 121 |
| Other assets | 18 | **157** | 202 | 183 | **154** | 201 | 176 |
| **Total assets** | | **54,368** | 49,911 | 52,295 | **62,262** | 49,696 | 52,177 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 19 | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| Deposits at amortised cost | 19 | **28,619** | 27,640 | 28,064 | **28,619** | 27,640 | 28,064 |
| Derivative financial instruments | 29 | **-** | 8 | - | **-** | 8 | - |
| Other trading liabilities at fair value | 20 | **2,297** | - | - | **2,297** | - | - |
| Debt issues | 21 | **11,492** | 11,260 | 11,102 | **1,753** | 716 | 1,582 |
| Current tax liabilities | | **116** | 13 | 69 | **112** | 15 | 68 |
| Deferred tax liabilities | 22 | **-** | - | - | **-** | - | - |
| Provisions | 23 | **69** | 48 | 67 | **69** | 48 | 67 |
| Other liabilities | 24 | **504** | 587 | 696 | **468** | 495 | 588 |
| **Total liabilities excluding perpetual subordinated notes and due to related entities** | | **47,166** | 43,840 | 44,161 | **37,387** | 33,206 | 34,532 |
| Perpetual subordinated notes | 26 | **970** | 970 | 970 | **970** | 970 | 970 |
| **Total liabilities excluding due to related entities** | | **48,136** | 44,810 | 45,131 | **38,357** | 34,176 | 35,502 |
| Due to related entities | 28 | **2,584** | 964 | 2,249 | **20,293** | 11,454 | 11,843 |
| **Total liabilities** | | **50,720** | 45,774 | 47,380 | **58,650** | 45,630 | 47,345 |
| **Net assets** | | **3,648** | 4,137 | 4,915 | **3,612** | 4,066 | 4,832 |
| **Equity** | | | | | | | |
| Ordinary share capital | 27 | **3,470** | 2,500 | 3,250 | **3,470** | 2,500 | 3,250 |
| Preference share capital | 27 | **-** | 1,300 | 1,300 | **-** | 1,300 | 1,300 |
| Retained profits | | **180** | 305 | 344 | **150** | 239 | 269 |
| Available-for-sale securities reserve | | **19** | 11 | 16 | **19** | 11 | 16 |
| Cash flow hedge reserve | | **(27)** | 16 | (3) | **(27)** | 16 | (3) |
| **Total equity attributable to equity holders of the Banking Group** | | **3,642** | 4,132 | 4,907 | **3,612** | 4,066 | 4,832 |
| Other minority interests | | **6** | 5 | 8 | **-** | - | - |
| **Total equity** | | **3,648** | 4,137 | 4,915 | **3,612** | 4,066 | 4,832 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Statements of cash flows for the six months ended 31 March 2009

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Cash flows from operating activities** | | | | | | |
| Interest received | **2,177** | 2,101 | 4,320 | **2,165** | 2,088 | 4,295 |
| Interest paid | **(1,623)** | (1,539) | (3,010) | **(1,544)** | (1,464) | (2,952) |
| Other non-interest income received | **182** | 144 | 378 | **227** | 136 | 368 |
| Net (acquisition)/disposal of other trading securities | **(2,679)** | 1,026 | 409 | **(2,679)** | 1,026 | 409 |
| Net acquisition of other trading liabilities at fair value | **2,297** | - | - | **2,297** | - | - |
| Net (acquisition)/disposal of derivative financial instruments | **(14)** | 3 | 21 | **(14)** | 3 | 21 |
| Operating expenses paid | **(321)** | (282) | (584) | **(327)** | (289) | (600) |
| Income tax paid | **(76)** | (102) | (144) | **(75)** | (99) | (140) |
| **Net cash flows from operating activities** | **(57)** | 1,351 | 1,390 | **50** | 1,401 | 1,401 |
| **Cash flows from investing activities** | | | | | | |
| Net disposal of available-for-sale securities | **-** | 30 | 29 | **-** | 30 | 29 |
| Net loans advanced to customers | **(1,314)** | (2,514) | (4,406) | **(1,320)** | (2,525) | (4,427) |
| Net decrease/(increase) in due from related entities | **1,862** | (2,454) | (1,493) | **(6,114)** | (2,227) | (1,352) |
| Net increase in other assets | **(1)** | (1) | - | **(2)** | (2) | - |
| Investment in related entities | **-** | - | - | **(43)** | - | - |
| Purchase of capitalised computer software | **(15)** | (14) | (38) | **(15)** | (14) | (38) |
| Purchase of property, plant and equipment | **(23)** | (7) | (20) | **(1)** | (2) | (3) |
| **Net cash provided by/(used in) investing activities** | **509** | (4,960) | (5,928) | **(7,495)** | (4,740) | (5,791) |
| **Cash flows from financing activities** | | | | | | |
| Issue of ordinary share capital | **-** | 85 | 835 | **-** | 85 | 835 |
| (Redemption)/ issue of preference share capital | **(1,300)** | 1,300 | 1,300 | **(1,300)** | 1,300 | 1,300 |
| Net increase in deposits | **461** | 2,513 | 2,816 | **461** | 2,513 | 2,816 |
| Net proceeds/(redemption) from/of debt issues | **390** | (439) | (597) | **171** | 81 | 947 |
| Net increase/(decrease) in due to related entities | **334** | 409 | 667 | **8,449** | (393) | (1,031) |
| Net (decrease)/increase in other liabilities | **(19)** | 14 | (37) | **(22)** | 15 | (38) |
| Payment of dividends | **(108)** | (236) | (335) | **(104)** | (231) | (331) |
| Payment of subvention distribution (net of tax) | **-** | - | (100) | **-** | - | (100) |
| **Net cash (used in)/provided by financing activities** | **(242)** | 3,646 | 4,549 | **7,655** | 3,370 | 4,398 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

## Statements of cash flows (continued) for the six months ended 31 March 2009

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Net increase in cash and cash equivalents** | **210** | 37 | 11 | **210** | 31 | 8 |
| Cash and cash equivalents at beginning of the period/year | **113** | 102 | 102 | **110** | 102 | 102 |
| **Cash and cash equivalents at end of the period/year** | **323** | 139 | 113 | **320** | 133 | 110 |
| **Cash and cash equivalents comprise** | | | | | | |
| Cash and balances with central banks | **320** | 137 | 110 | **320** | 133 | 110 |
| Due from other financial institutions – at call | **3** | 2 | 3 | **-** | - | - |
| **Cash and cash equivalents at end of the period/year** | **323** | 139 | 113 | **320** | 133 | 110 |
| **Reconciliation of profit after income tax expense to net cash flows from operating activities** | | | | | | |
| Profit after income tax expense attributable to equity holders of the Banking Group | **160** | 299 | 559 | **205** | 244 | 495 |
| *Adjustments:* | | | | | | |
| Software amortisation costs | **22** | 22 | 49 | **22** | 22 | 49 |
| Impairment charges on intangible assets | **-** | - | 13 | **-** | - | 13 |
| Impairment charges on property, plant and equipment | **-** | - | 8 | **-** | - | 2 |
| Impairment charges on loans | **316** | 61 | 170 | **316** | 60 | 167 |
| Depreciation/amortisation | **9** | 13 | 24 | **2** | 4 | 7 |
| Share of net profit of associate | **-** | (48) | (48) | **-** | - | - |
| Share-based payments | **1** | 1 | 5 | **1** | 1 | 5 |
| Minority interests in subsidiary companies | **2** | 1 | 3 | **-** | - | - |
| Movement in other assets | **27** | (27) | (9) | **24** | (30) | (7) |
| Movement in other liabilities and provisions | **(171)** | 22 | 70 | **(96)** | 95 | 129 |
| Movement in income tax provisions and deferred tax | **(37)** | (25) | 104 | **(38)** | (27) | 99 |
| Net disposal/(acquisition) of other trading securities | **(2,679)** | 1,026 | 409 | **(2,679)** | 1,026 | 409 |
| Net acquisition of other trading liabilities at fair value | **2,297** | - | - | **2,297** | - | - |
| Net (acquisition)/disposal of derivative financial instruments | **(14)** | 3 | 21 | **(14)** | 3 | 21 |
| Tax effect of change in cash flow hedge reserve | **10** | 3 | 12 | **10** | 3 | 12 |
| **Net cash flows from operating activities** | **(57)** | 1,351 | 1,390 | **50** | 1,401 | 1,401 |

The accompanying notes (numbered 1 to 52) form part of, and should be read in conjunction with, these financial statements.

# Notes to the financial statements

## Note 1 Statement of accounting policies

### 1.1 General accounting policies

#### Statutory base

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Order, the Reserve Bank Act, applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards. Compliance with NZ IFRS ensures that the financial report of the Banking Group, comprising the financial statements and accompanying notes, complies with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board on 27 May 2009.

#### Basis of preparation

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

The accounting policies have been consistently applied by the Banking Group for all the financial periods presented in these financial statements.

The prior period comparatives for amounts due from and due to related entities have been restated as outlined in the explanation in Note 48.

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.

#### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Bank and the results of all subsidiaries. The effects of all transactions between entities in the Banking Group are eliminated. Control exists when the parent entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and they are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Banking Group.

The interest of minority shareholders is stated at minority's proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the Bank.

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The Banking Group, through its subsidiary, Westpac NZ Operations Limited, has a qualifying interest of 9.5% in WNZSHL. Through contractual arrangements put in place, the Banking Group is deemed to control both WNZSHL and WNZSL.

##### *Foreign currency*

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

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Banking Group have been included in the income statement except where deferred in equity as qualifying cash flow hedges.

### 1.2 Particular accounting policies

#### Revenue recognition

##### *Interest income*

Interest income for all instruments measured at amortised cost is recognised in the income statement using the effective interest method.

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

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

##### *Fee and commission income*

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

##### *Trading income*

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

## Note 1 Statement of accounting policies (continued)

***Gain or loss on sale of property, plant and equipment***

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

### Expense recognition

***Interest expense***

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method.

***Losses on loans and receivables carried at amortised cost***

The charge recognised in the income statement for losses on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of losses previously written off.

***Leasing***

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

***Commissions and other fees***

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

### Taxation

***Income tax***

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

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

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

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

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

***Goods and services tax***

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

### Acquisition of assets

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

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

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

### Assets

***Financial assets***

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

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

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

## Note 1 Statement of accounting policies (continued)

- *Loans*
  Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.
- *Available-for-sale securities*
  Available-for-sale securities are those non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss or loans.

***Recognition of financial assets***

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

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

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

***Cash and balances with central banks***

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

***Due from other financial institutions***

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

***Derivative financial instruments***

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

***Other trading securities***

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

***Other financial assets designated at fair value***

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

***Available-for-sale securities***

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

***Loans***

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. They are accounted for as loans. The accounting treatment for loans is set out above.

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

## Note 1 Statement of accounting policies (continued)

***Impairment of financial assets***

Impaired financial assets include:

- restructured assets, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer; and
- real estate or other assets acquired through security enforcement or where the Banking Group has assumed ownership of an asset in settlement of all or part of a debt.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately. These are known as 'past due assets'.

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

***Assets carried at amortised cost***

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

(i) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

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

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

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

# Note 1 Statement of accounting policies (continued)

### *Investments in related entities including associates*

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

Associates are all entities over which the Banking Group has significant influence but not control. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Banking Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

### *Goodwill and other intangible assets*

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

All goodwill is considered to have an indefinite useful life.

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

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

Goodwill was tested for impairment as at 30 September 2008.

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

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

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

### *Property, plant and equipment*

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

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

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

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

### *Impairment of non-financial assets*

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

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

## Liabilities

### *Financial liabilities*

Financial liabilities are initially recognised at fair value plus transaction costs. They are subsequently measured at amortised cost except for derivatives and liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised in the balance sheet when an obligation arises and derecognised when it is discharged.

## Note 1 Statement of accounting policies (continued)

***Deposits at fair value***

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

***Deposits at amortised cost***

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

***Derivative financial instruments***

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

***Other trading liabilities and other financial liabilities at fair value***

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

***Debt issues***

These are bonds, notes and commercial paper that have been issued by the Banking Group. They are either accounted for at amortised cost or at fair value through profit or loss. If the liability is accounted for at amortised cost it is initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured using the effective interest method. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch, which arises due to derivatives being executed for risk management purposes.

***Perpetual subordinated notes***

Perpetual subordinated notes are measured at amortised cost. The notes qualify as Tier Two Capital as defined by the Reserve Bank of New Zealand for capital adequacy purposes.

### Employee entitlements

***Wages and salaries, annual leave and sick leave***

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

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

***Long service leave***

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

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

***Superannuation obligations***

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

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation plan is the present value of the defined benefit obligation as at the reporting date less the fair value of the plan's assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Actuarial gains and losses related to defined benefit superannuation plan are recorded directly in retained earnings. The net surplus or deficit that arises within the plan is recognised and disclosed separately in 'Other liabilities'.

## Note 1 Statement of accounting policies (continued)

***Termination benefits***

Liabilities for termination benefits are recognised when a detailed plan for the terminations has been developed (and is without realistic possibility of withdrawal) and a valid expectation has been raised in those employees affected that the terminations will be carried out. Liabilities for termination benefits are recognised within other liabilities unless the timing or amount is uncertain, in which case they are recognised as provisions.

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

***Share-based compensation – options and performance share rights***

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

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

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

### Provisions

***Provision for restructuring***

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

### Equity and reserves

***Ordinary shares***

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

***Available-for-sale securities reserve***

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

***Cash flow hedge reserve***

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

### Hedging

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

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

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

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

***Fair value hedge***

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

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

## Note 1 Statement of accounting policies (continued)

***Cash flow hedge***

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

Amounts accumulated in equity are transferred to the income statement in the periods in which the hedged item affects profit or loss (e.g. when interest income or expense is recognised).

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

***Embedded derivatives***

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

### Loan securitisation

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where substantially all the risks and rewards of ownership have been transferred.

### Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. In contrast, an operating lease exists where the risks of the leased assets remain with the lessor.

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

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

### Offsetting

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

### Segment reporting

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

### Statement of cash flows

***Basis of presentation***

The statement of cash flows has been presented in accordance with New Zealand International Accounting Standard ('**NZ IAS**') 7 *Cash Flow Statements* with netting of certain items as disclosed below.

***Cash and cash equivalents***

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

***Netting of cash flows***

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

# Note 1 Statement of accounting policies (continued)

## 1.3 Change in accounting policies

With effect from 1 October 2007, the Banking Group changed its accounting treatment for actuarial gains and losses on its employee defined benefit superannuation plans. The revised policy brings to account all unrecognised actuarial gains/losses outside of the profit and loss directly in the statement of changes in equity. Previously the Banking Group applied the corridor approach. At 1 October 2007, the cumulative change resulted in an increase in retained earnings of $12.7 million and a decrease in the retirement benefit deficit balance by $19.1 million (30 September 2008 decrease in retained earnings of $20.2 million and an increase in the retirement benefit deficit balance by $30.3 million; 31 March 2008 increase in retained earnings by $1.1 million and a decrease in the retirement benefit deficit balance by $1.6 million). At 31 March 2009, the cumulative change resulted in a decrease in retained earnings of $19.5 million and an increase in the retirement benefit deficit balance by $27.9 million. Deferred tax entries account for the difference between the change to retained earnings and the retirement benefit deficit balance.

## 1.4 Future accounting developments

The following new standards and interpretations have been issued, but are not yet effective and have not been early adopted by the Banking Group:

- NZ IFRS 8 *Operating Segments* was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and will apply to the Banking Group from 1 October 2009. NZ IFRS 8 will impact the financial and descriptive information about reportable segments, but will not impact the Banking Group's reported results or financial position.
- A revised NZ IFRS 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* were issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants in February 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards 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 minority interests would be treated as equity transactions.
- NZ IAS 1 *Presentation of Financial Statements* is a revised standard applicable to annual reporting periods beginning on or after 1 January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- Amendments to NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1, approved in November 2007, require some puttable financial instruments, and some financial instruments that impose on the entity an obligation to deliver another party or pro rata share of the net assets only on liquidation, to be classified as equity. The amendment is applicable to the Banking Group from 1 October 2009.

## 1.5 Critical accounting assumptions and estimates

### Critical accounting estimates

The application of the Banking Group's accounting policies necessarily requires the use of judgement, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Bank and the Banking Group.

Management has discussed the accounting policies which are sensitive to the use of judgement, estimates and assumptions with the Board Audit Committee.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

#### *Fair value of financial instruments*

Financial instruments are classified as either held-for-trading or designated at fair value through profit or loss. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation technique, the expected cash flows for each instrument is determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial market pricing models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable any day one profit or loss is amortised over the life of the transaction.

## Note 1 Statement of accounting policies (continued)

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used) or to reflect hedging costs not captured in pricing models (to the extent they would be taken into account by a market participant in determining a price). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 31.

A negligible proportion of the Banking Group's trading derivatives are valued directly from quoted prices, the majority being valued using appropriate valuation techniques, using observable market inputs. The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices or inputs.

### *Provisions for impairment on loans*

The Banking Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's effective interest rate. Provisions for loan impairment losses represent management's estimate of the losses incurred in the loan portfolios as at balance date. Changes to the allowances for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of the impairment charge on loans.

There are two components to the Banking Group's loan impairment provisions, individual and collective, as follows:

(a) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Banking Group's portfolio of commercial loans to medium and large businesses. Impairment charges are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgements can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred, but have not been separately identified as at balance date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence period. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

### *Goodwill*

Goodwill represents the excess of purchase consideration, including incidental expenses, over the fair value of the Bank and Banking Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually. The carrying value of goodwill as at 31 March 2009 was $477 million (31 March 2008: $477 million, 30 September 2008: $477 million).

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgement. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquisition.

To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value-in-use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties. The assumptions applied to determine impairment are outlined in Note 15.

Goodwill impairment testing for the financial year 2008 indicated that none of the Banking Group's goodwill was impaired.

### *Superannuation obligations*

The Banking Group operates a defined benefit plan as described in Note 34. For this plan, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed annually in accordance with the requirements of NZ IAS 19 *Employee Benefits*.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged to the income statement.

The Bank and Banking Group's NZ IAS 19 superannuation deficit as at 31 March 2009 was $39 million (31 March 2008: $23 million, 30 September 2008: $43 million). This comprises net recognised liabilities of $39 million (31 March 2008: $23 million, 30 September 2008: $43 million) and recognised actuarial gain of $1 million (31 March 2008: $12 million, 30 September 2008: $33 million).

## Note 1 Statement of accounting policies (continued)

***Provisions (other than loan impairment losses)***

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, non-lending losses and surplus lease space. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

### 1.6 Past due assets for prior periods

As a result of continuing analysis of the Banking Group's credit data, it has been determined that past due assets 1 to 89 days and 90+ days were overstated in prior periods. The comparative periods' disclosures for the six months ended 31 March 2008 and year ended 30 September 2008 have been restated and disclosed in Notes 13 and 14 of this General Disclosure Statement. The disclosure for the three months ended 31 December 2008 has been restated and is presented in the table below.

| | The Banking Group Three Months Ended 31 December 2008 (Restated) – Unaudited | | | |
|---|---|---|---|---|
| | **Total $m** | Residential Mortgages $m | Other Loans for Consumer Purposes $m | Loans for Business Purposes $m |
| **Past due assets 1 to 89 days**[1] | | | | |
| Balance at beginning of the period | **2,139** | 1,394 | 156 | 589 |
| Additions | **3,213** | 1,942 | 221 | 1,050 |
| Deletions | **(3,315)** | (2,035) | (231) | (1,049) |
| **Balance at end of the period** | **2,037** | 1,301 | 146 | 590 |
| **Past due assets 90+ days**[1] | | | | |
| Balance at beginning of the period | **221** | 75 | 25 | 121 |
| Additions | **239** | 95 | 23 | 121 |
| Deletions | **(139)** | (74) | (20) | (45) |
| **Balance at end of the period** | **321** | 96 | 28 | 197 |

1 Past due assets are not impaired assets

## Note 2 Net interest income

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Interest income** | | | | | | |
| Loans | **2,046** | 2,020 | 4,169 | **2,034** | 2,007 | 4,143 |
| Deposits with other financial institutions | **7** | - | - | **7** | - | - |
| Impaired assets | **15** | 4 | 18 | **15** | 4 | 18 |
| Other trading securities | **77** | 74 | 140 | **77** | 74 | 140 |
| **Total interest income** | **2,145** | 2,098 | 4,327 | **2,133** | 2,085 | 4,301 |
| **Interest expense** | | | | | | |
| Current and term deposits | **869** | 1,071 | 2,207 | **869** | 1,071 | 2,206 |
| Debt issues | **207** | 300 | 560 | **63** | 31 | 90 |
| Related entities | **333** | 126 | 285 | **474** | 393 | 758 |
| Other trading liabilities at fair value | **33** | - | - | **33** | - | - |
| Other | **3** | 1 | - | **3** | - | - |
| **Total interest expense** | **1,445** | 1,498 | 3,052 | **1,442** | 1,495 | 3,054 |
| **Net interest income** | **700** | 600 | 1,275 | **691** | 590 | 1,247 |

## Note 3 Non-interest income

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Fees and commissions** | | | | | | |
| Lending fees (loan and risk) | **43** | 45 | 90 | **43** | 45 | 89 |
| Transaction fees and commissions | **112** | 115 | 226 | **109** | 111 | 221 |
| Management fees received from related entities | **1** | 3 | 4 | **3** | 3 | 4 |
| Other non-risk fee income | **1** | 2 | 1 | **-** | - | - |
| **Total fees and commissions** | **157** | 165 | 321 | **155** | 159 | 314 |
| **Gain/(loss) on ineffective hedges** | **2** | (1) | (1) | **2** | (1) | (1) |
| **Share of net profit of associate** | - | 48 | 48 | **-** | - | - |
| **Other non-interest income** | | | | | | |
| Dividend income | **-** | - | 1 | **50** | - | - |
| Life insurance commissions | **18** | 13 | 35 | **18** | 13 | 35 |
| Derivatives held for risk management purposes | **5** | - | 24 | **5** | - | 24 |
| Other | **3** | - | - | **-** | - | - |
| **Total other non-interest income** | **26** | 13 | 60 | **73** | 13 | 59 |
| **Total non-interest income** | **185** | 225 | 428 | **230** | 171 | 372 |

# Note 4 Operating expenses

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Salaries and other staff expenses** | | | | | | |
| Salaries and wages | **151** | 145 | 293 | **151** | 145 | 293 |
| Employee entitlements | **4** | 1 | 8 | **4** | 1 | 8 |
| Superannuation costs: | | | | | | |
| Defined contribution scheme (refer to Note 34) | **11** | 10 | 19 | **11** | 10 | 19 |
| Share-based payments | **1** | 1 | 5 | **1** | 1 | 5 |
| Restructuring costs | **1** | 2 | 6 | **1** | 2 | 6 |
| Other | **5** | 6 | 10 | **4** | 7 | 10 |
| **Total salaries and other staff expenses** | **173** | 165 | 341 | **172** | 166 | 341 |
| **Equipment and occupancy expenses** | | | | | | |
| Operating lease rentals: | | | | | | |
| Related entities | **-** | - | - | **36** | 37 | 85 |
| Other | **25** | 25 | 51 | **3** | 3 | 6 |
| Depreciation: | | | | | | |
| Leasehold improvements | **4** | 5 | 10 | **-** | - | - |
| Furniture and equipment | **5** | 8 | 14 | **2** | 4 | 7 |
| Equipment repairs and maintenance | **3** | 3 | 5 | **1** | 1 | 2 |
| Electricity, water and rates | **1** | 1 | 2 | **-** | - | - |
| Other | **4** | 2 | 7 | **-** | - | - |
| **Total equipment and occupancy expenses** | **42** | 44 | 89 | **42** | 45 | 100 |
| **Other expenses** | | | | | | |
| Impairment charges on other intangible assets | **-** | - | 13 | **-** | - | 13 |
| Impairment charges on property, plant and equipment | **-** | - | 8 | **-** | - | 2 |
| Software amortisation costs | **22** | 22 | 49 | **22** | 22 | 49 |
| Non-lending losses | **1** | 1 | 3 | **1** | 1 | 3 |
| Consultancy fees and other professional services | **27** | 24 | 45 | **26** | 23 | 42 |
| Auditors' remuneration (refer to Note 5) | **1** | - | 1 | **1** | - | 1 |
| Stationery | **6** | 5 | 12 | **5** | 5 | 12 |
| Postage and freight | **8** | 8 | 16 | **8** | 8 | 16 |
| Advertising | **12** | 12 | 27 | **12** | 12 | 27 |
| Training | **2** | 1 | 3 | **2** | 1 | 3 |
| Travel | **3** | 3 | 6 | **3** | 3 | 6 |
| Outsourcing | **40** | 40 | 78 | **40** | 40 | 78 |
| Related entities | **-** | 4 | 9 | **-** | 1 | - |
| Other | **4** | 4 | 9 | **3** | 4 | 11 |
| **Total other expenses** | **126** | 124 | 279 | **123** | 120 | 263 |
| **Total operating expenses** | **341** | 333 | 709 | **337** | 331 | 704 |

The Banking Group made donations of $43,000 during the six months ended 31 March 2009 (31 March 2008: $70,000, 30 September 2008: $134,000).

# Note 5 Auditors' remuneration

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $'000** | Six Months Ended 31 March 2008 Unaudited $'000 | Year Ended 30 September 2008 Audited $'000 | **Six Months Ended 31 March 2009 Unaudited $'000** | Six Months Ended 31 March 2008 Unaudited $'000 | Year Ended 30 September 2008 Audited $'000 |
| **Auditor of the parent entity** | | | | | | |
| Audit services | **389** | 290 | 1,098 | **389** | 275 | 991 |
| Other services: | | | | | | |
| Further assurance services | **208** | 101 | 226 | **208** | 101 | 226 |
| Tax services | **42** | - | 50 | **42** | - | 50 |
| **Total remuneration for audit and non-audit services** | **639** | 391 | 1,374 | **639** | 376 | 1,267 |

## Note 5 Auditors' remuneration (continued)

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

## Note 6 Impairment on loans

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| Collectively assessed provision | **100** | 23 | 63 | **101** | 22 | 62 |
| Collective write-off | **29** | 24 | 55 | **28** | 24 | 53 |
| Individually assessed provisions | **194** | 17 | 64 | **194** | 17 | 64 |
| Individually assessed write-off | **3** | 5 | 9 | **3** | 5 | 9 |
| Interest adjustments | **(10)** | (8) | (21) | **(10)** | (8) | (21) |
| **Total impairment charges on loans** | **316** | 61 | 170 | **316** | 60 | 167 |

Total impairment charges on loans are further analysed by class as follows:

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 – Unaudited** | | | | **Six Months Ended 31 March 2009 – Unaudited** | | | |
| | **Residential Mortgages $m** | **Other Loans for Consumer Purposes $m** | **Loans for Business Purposes $m** | **Total $m** | **Residential Mortgages $m** | **Other Loans for Consumer Purposes $m** | **Loans for Business Purposes $m** | **Total $m** |
| Collectively assessed provision | **11** | **1** | **88** | **100** | **11** | **2** | **88** | **101** |
| Collective write-off | **-** | **29** | **-** | **29** | **-** | **28** | **-** | **28** |
| Individually assessed provisions | **38** | **-** | **156** | **194** | **38** | **-** | **156** | **194** |
| Individually assessed write-off | **2** | **-** | **1** | **3** | **2** | **-** | **1** | **3** |
| Interest adjustments | **(1)** | **(2)** | **(7)** | **(10)** | **(1)** | **(2)** | **(7)** | **(10)** |
| **Total impairment charges on loans** | **50** | **28** | **238** | **316** | **50** | **28** | **238** | **316** |

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | Six Months Ended 31 March 2008 – Unaudited | | | | Six Months Ended 31 March 2008 – Unaudited | | | |
| | Residential Mortgages $m | Other Loans for Consumer Purposes $m | Loans for Business Purposes $m | Total $m | Residential Mortgages $m | Other Loans for Consumer Purposes $m | Loans for Business Purposes $m | Total $m |
| Collectively assessed provision | 6 | 11 | 6 | 23 | 6 | 10 | 6 | 22 |
| Collective write-off | - | 24 | - | 24 | - | 24 | - | 24 |
| Individually assessed provisions | 8 | - | 9 | 17 | 8 | - | 9 | 17 |
| Individually assessed write-off | - | - | 5 | 5 | - | - | 5 | 5 |
| Interest adjustments | (1) | (3) | (4) | (8) | (1) | (3) | (4) | (8) |
| **Total impairment charges on loans** | 13 | 32 | 16 | 61 | 13 | 31 | 16 | 60 |

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | Year Ended 30 September 2008 – Audited | | | | Year Ended 30 September 2008 – Audited | | | |
| | Residential Mortgages $m | Other Loans for Consumer Purposes $m | Loans for Business Purposes $m | Total $m | Residential Mortgages $m | Other Loans for Consumer Purposes $m | Loans for Business Purposes $m | Total $m |
| Collectively assessed provision | 10 | 12 | 41 | 63 | 10 | 11 | 41 | 62 |
| Collective write-off | - | 55 | - | 55 | - | 53 | - | 53 |
| Individually assessed provisions | 23 | - | 41 | 64 | 23 | - | 41 | 64 |
| Individually assessed write-off | 2 | - | 7 | 9 | 2 | - | 7 | 9 |
| Interest adjustments | (2) | (8) | (11) | (21) | (2) | (8) | (11) | (21) |
| **Total impairment charges on loans** | 33 | 59 | 78 | 170 | 33 | 56 | 78 | 167 |

# Note 7 Income tax expense

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Income tax expense** | | | | | | |
| Current tax: | | | | | | |
| Current period/year | **144** | 135 | 290 | **140** | 129 | 281 |
| Prior period/year | **-** | - | (5) | **1** | - | (5) |
| Deferred tax (refer to Notes 17 and 22): | | | | | | |
| Current period/year | **(75)** | (7) | (33) | **(75)** | (6) | (33) |
| Prior period/year | **(3)** | - | 4 | **(3)** | - | 4 |
| Change to corporate tax rate[1] | **-** | 3 | 6 | **-** | 3 | 6 |
| **Total income tax expense** | **66** | 131 | 262 | **63** | 126 | 253 |
| **Profit before income tax expense** | **228** | 431 | 824 | **268** | 370 | 748 |
| Tax calculated at tax rate of 30% (31 March 2008: 33%, 30 September 2008: 33%) | **68** | 142 | 272 | **80** | 122 | 247 |
| Income not subject to tax | **-** | (16) | (16) | **(15)** | - | - |
| Expenses not deductible for tax purposes | **-** | 1 | 2 | **-** | - | 2 |
| Prior period/year adjustments | **(2)** | - | - | **(2)** | - | - |
| Change to corporate tax rate[1] | **-** | 3 | 6 | **-** | 3 | 6 |
| Other items | **-** | 1 | (2) | **-** | 1 | (2) |
| **Total income tax expense** | **66** | 131 | 262 | **63** | 126 | 253 |

[1] The corporate tax rate in New Zealand has reduced from 33% to 30% from the beginning of the current income year (2008/2009). The reduced income tax rate is therefore reflected in the current tax liability balance for the current income tax period. The reduced income tax rate has also been reflected in the measurement of deferred taxes (the adjustment of the deferred tax balances to reflect the reduced tax rate was completed in the 2007/2008 income year).

The balance of the dividend withholding payment account as at 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: nil) and there was no movement during the six months ended 31 March 2009 (31 March 2008: nil, 30 September 2008: nil).

# Note 8 Imputation credit account

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| Balance at beginning of the period/year | **171** | 184 | 184 | **132** | 148 | 148 |
| Transfers | **67** | 3 | 3 | **66** | 3 | 3 |
| Imputation credits attached to dividends received during the period/year | **-** | 4 | 5 | **-** | - | 1 |
| Imputation credits attached to dividends paid during the period/year | **(134)** | (116) | (165) | **(110)** | (111) | (160) |
| Income tax payments during the period/year | **76** | 102 | 144 | **75** | 99 | 140 |
| **Balance at end of the period/year** | **180** | 177 | 171 | **163** | 139 | 132 |

The availability of these imputation credits is contingent on the Ultimate Parent Bank Group meeting the shareholder continuity rules. As a result of the merger with St.George Bank Limited and its subsidiaries during the period, an assessment of shareholder continuity is being undertaken. There is a risk that the requirements have not been met as a result of the issue of shares consequent to the merger.

## Note 9 Due from other financial institutions

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Loans and advances to other banks | **-** | - | - | **-** | - | - |
| Other | **3** | 2 | 3 | **-** | - | - |
| **Total due from other financial institutions** | **3** | 2 | 3 | **-** | - | - |
| Due from other financial institutions: | | | | | | |
| At call | **3** | 2 | 3 | **-** | - | - |
| Term | **-** | - | - | **-** | - | - |
| **Total due from other financial institutions** | **3** | 2 | 3 | **-** | - | - |

## Note 10 Other trading securities

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Other trading securities** | | | | | | |
| Trading securities | **4,652** | 1,356 | 1,973 | **4,652** | 1,356 | 1,973 |
| **Total other trading securities** | **4,652** | 1,356 | 1,973 | **4,652** | 1,356 | 1,973 |
| **Trading securities** | | | | | | |
| **Listed** | | | | | | |
| NZ Government securities | **2,321** | - | - | **2,321** | - | - |
| **Total listed trading securities** | **2,321** | - | - | **2,321** | - | - |
| **Unlisted** | | | | | | |
| NZ corporate securities: | | | | | | |
| Certificates of deposit | **2,331** | 1,356 | 1,973 | **2,331** | 1,356 | 1,973 |
| **Total unlisted trading securities** | **2,331** | 1,356 | 1,973 | **2,331** | 1,356 | 1,973 |
| **Total other trading securities** | **4,652** | 1,356 | 1,973 | **4,652** | 1,356 | 1,973 |

Included in trading securities of the Banking Group and the Bank as at 31 March 2009 were $200 million encumbered through repurchase agreements.

## Note 11 Available-for-sale securities

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Listed securities** | | | | | | |
| Overseas public securities | **38** | 30 | 35 | **38** | 30 | 35 |
| **Total available-for-sale securities** | **38** | 30 | 35 | **38** | 30 | 35 |

As at 31 March 2009, there were no available-for-sale securities pledged as collateral for Banking Group liabilities (31 March 2008: nil, 30 September 2008: nil).

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

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Balance at beginning of the period/year | **35** | - | - | **35** | - | - |
| Additions | **-** | 48 | 48 | **-** | 48 | 48 |
| Disposals (sale and redemption) | **-** | (29) | (29) | **-** | (29) | (29) |
| Gains from changes in fair value | **3** | 11 | 16 | **3** | 11 | 16 |
| **Balance at end of the period/year** | **38** | 30 | 35 | **38** | 30 | 35 |

## Note 12 Loans

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Overdrafts | **1,128** | 1,096 | 1,140 | **1,128** | 1,096 | 1,140 |
| Credit card outstandings | **1,165** | 1,117 | 1,149 | **1,093** | 1,045 | 1,079 |
| Money market loans | **626** | 723 | 594 | **626** | 723 | 594 |
| Term loans: | | | | | | |
| Housing | **32,268** | 30,510 | 31,353 | **32,165** | 30,389 | 31,241 |
| Non-housing | **12,967** | 11,571 | 12,603 | **12,967** | 11,571 | 12,603 |
| Other | **198** | 222 | 256 | **198** | 221 | 256 |
| **Total gross loans** | **48,352** | 45,239 | 47,095 | **48,177** | 45,045 | 46,913 |
| Provisions for impairment charges on loans | **(559)** | (227) | (300) | **(556)** | (223) | (296) |
| **Total net loans** | **47,793** | 45,012 | 46,795 | **47,621** | 44,822 | 46,617 |

During the current reporting period, the Banking Group has undertaken repurchase agreements with the Reserve Bank of New Zealand using residential mortgage backed securities. The repurchase cash amount at 31 March 2009 is $2,064 million with underlying securities to the value of $2,559 million provided under the arrangement.

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

## Note 13 Impaired assets

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Individually impaired assets** | | | | | | |
| Balance at beginning of the period/year | **278** | 112 | 112 | **278** | 112 | 112 |
| Movement for the period/year | **432** | 29 | 166 | **432** | 29 | 166 |
| **Balance at end of the period/year** | **710** | 141 | 278 | **710** | 141 | 278 |
| **Undrawn balance** | - | - | - | - | - | - |
| **Interest forgone for the period/year on the above impaired assets[2]** | **7** | - | 8 | **7** | - | 8 |
| **Restructured assets** | | | | | | |
| Balance at beginning of the period/year | - | 2 | 2 | - | 2 | 2 |
| Movement for the period/year | - | 1 | (2) | - | 1 | (2) |
| **Balance at end of the period/year** | - | 3 | - | - | 3 | - |
| **Undrawn balance** | - | - | - | - | - | - |
| **Interest forgone for the period/year on the above restructured assets[2]** | - | - | - | - | - | - |
| **Past due assets 1 to 89 days[1]** | | | | | | |
| Balance at beginning of the period/year | **2,139** | 3,275 | 3,275 | **2,133** | 3,268 | 3,268 |
| Movement for the period/year | **(201)** | (1,003) | (1,136) | **(204)** | (1,004) | (1,135) |
| **Balance at end of the period/year** | **1,938** | 2,272 | 2,139 | **1,929** | 2,264 | 2,133 |
| **Past due assets 90+ days[1]** | | | | | | |
| Balance at beginning of the period/year | **221** | 126 | 126 | **220** | 125 | 125 |
| Movement for the period/year | **128** | 86 | 95 | **127** | 86 | 95 |
| **Balance at end of the period/year** | **349** | 212 | 221 | **347** | 211 | 220 |
| **Undrawn balance** | - | - | - | - | - | - |
| **Interest forgone for the period/year on the above restructured assets[2]** | - | - | - | - | - | - |
| **Other assets under administration[1]** | | | | | | |
| Balance at beginning of the period/year | - | - | - | - | - | - |
| Movement for the period/year | - | - | - | - | - | - |
| **Balance at end of the period/year** | - | - | - | - | - | - |
| **Undrawn balance** | - | - | - | - | - | - |
| **Individually assessed provisions** | | | | | | |
| Balance at beginning of the period/year | **65** | 26 | 26 | **65** | 26 | 26 |
| Movement for the period/year | **169** | 4 | 39 | **169** | 4 | 39 |
| **Balance at end of the period/year** | **234** | 30 | 65 | **234** | 30 | 65 |
| **Collectively assessed provision** | | | | | | |
| Balance at beginning of the period/year | **257** | 194 | 194 | **253** | 191 | 191 |
| Movement for the period/year | **100** | 23 | 63 | **101** | 22 | 62 |
| **Balance at end of the period/year** | **357** | 217 | 257 | **354** | 213 | 253 |
| **Total impairment provisions** | **591** | 247 | 322 | **588** | 243 | 318 |
| Provisions for impairment on loans | **559** | 227 | 300 | **556** | 223 | 296 |
| Provisions for impairment on off-balance sheet credit exposures | **32** | 20 | 22 | **32** | 20 | 22 |
| **Total impairment provisions** | **591** | 247 | 322 | **588** | 243 | 318 |

1 Past due assets and other assets under administration are not impaired assets.

2 Interest foregone is calculated based on specific loan balances at the average interest rate.

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

Comparative numbers for the Bank's, and the Banking Group's, past due assets 1-89 days and 90+ days have been restated. Refer to Note 1.6 for further information.

# Note 13 Impaired assets (continued)

The above table is further analysed by major type of credit exposure in the following tables.

## Residential mortgages

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Individually impaired assets** | | | | | | |
| Balance at beginning of the period/year | **190** | 74 | 74 | **190** | 74 | 74 |
| Additions | **234** | 90 | 258 | **234** | 90 | 258 |
| Amounts written off | **(15)** | (2) | (12) | **(15)** | (2) | (12) |
| Returned to performing or repaid | **(89)** | (48) | (130) | **(89)** | (48) | (130) |
| **Balance at end of the period/year** | **320** | 114 | 190 | **320** | 114 | 190 |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Past due assets 1 to 89 days**[1] | | | | | | |
| Balance at beginning of the period/year | **1,394** | 2,559 | 2,559 | **1,394** | 2,559 | 2,559 |
| Additions | **3,802** | 4,057 | 7,971 | **3,802** | 4,057 | 7,971 |
| Deletions | **(3,960)** | (5,044) | (9,136) | **(3,960)** | (5,044) | (9,136) |
| **Balance at end of the period/year** | **1,236** | 1,572 | 1,394 | **1,236** | 1,572 | 1,394 |
| **Past due assets 90+ days**[1] | | | | | | |
| Balance at beginning of the period/year | **75** | 37 | 37 | **75** | 37 | 37 |
| Additions | **200** | 104 | 248 | **200** | 104 | 248 |
| Deletions | **(157)** | (90) | (210) | **(157)** | (90) | (210) |
| **Balance at end of the period/year** | **118** | 51 | 75 | **118** | 51 | 75 |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Individually assessed provisions** | | | | | | |
| Balance at beginning of the period/year | **24** | 15 | 15 | **24** | 15 | 15 |
| Impairment charges on loans: | | | | | | |
| New provisions | **44** | 16 | 34 | **44** | 16 | 34 |
| Recoveries | **(6)** | (8) | (11) | **(6)** | (8) | (11) |
| Impairment charges on loans written off | **(2)** | (1) | (14) | **(2)** | (1) | (14) |
| **Balance at end of the period/year** | **60** | 22 | 24 | **60** | 22 | 24 |
| **Collectively assessed provision** | | | | | | |
| Balance at beginning of the period/year | **30** | 20 | 20 | **30** | 20 | 20 |
| Impairment charges on loans | **11** | 6 | 10 | **11** | 6 | 10 |
| **Balance at end of the period/year** | **41** | 26 | 30 | **41** | 26 | 30 |
| **Total impairment provisions** | **101** | 48 | 54 | **101** | 48 | 54 |
| Provisions for impairment on loans | **101** | 48 | 54 | **101** | 48 | 54 |
| Provisions for impairment on off-balance sheet credit exposures | **-** | - | - | **-** | - | - |
| **Total impairment provisions** | **101** | 48 | 54 | **101** | 48 | 54 |

1 Past due assets are not impaired assets.

Comparative numbers for the Bank's, and the Banking Group's, past due assets 1-89 days and 90+ days have been restated. Refer to Note 1.6 for further information.

## Note 13 Impaired assets (continued)

### Other loans for consumer purposes

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Past due assets 1 to 89 days[1]** | | | | | | |
| Balance at beginning of the period/year | **156** | 160 | 160 | **150** | 153 | 153 |
| Additions | **459** | 522 | 993 | **431** | 499 | 949 |
| Deletions | **(462)** | (492) | (997) | **(437)** | (470) | (952) |
| **Balance at end of the period/year** | **153** | 190 | 156 | **144** | 182 | 150 |
| **Past due assets 90+ days[1]** | | | | | | |
| Balance at beginning of the period/year | **25** | 16 | 16 | **24** | 15 | 15 |
| Additions | **48** | 34 | 76 | **43** | 34 | 72 |
| Deletions | **(42)** | (30) | (67) | **(38)** | (30) | (63) |
| **Balance at end of the period/year** | **31** | 20 | 25 | **29** | 19 | 24 |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Collectively assessed provision** | | | | | | |
| Balance at beginning of the period/year | **61** | 49 | 49 | **57** | 46 | 46 |
| Impairment charges on loans | **1** | 11 | 12 | **2** | 10 | 11 |
| **Balance at end of the period/year** | **62** | 60 | 61 | **59** | 56 | 57 |
| **Total impairment provisions** | **62** | 60 | 61 | **59** | 56 | 57 |
| Provisions for impairment on loans | **62** | 60 | 61 | **59** | 56 | 57 |
| Provisions for impairment on off-balance sheet credit exposures | **-** | - | - | **-** | - | - |
| **Total impairment provisions** | **62** | 60 | 61 | **59** | 56 | 57 |

1 Past due assets are not impaired assets.

Comparative numbers for the Bank's, and the Banking Group's, past due assets 1-89 days and 90+ days have been restated. Refer to Note 1.6 for further information.

# Note 13 Impaired assets (continued)

## Loans for business purposes

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| **Individually impaired assets** | | | | | | |
| Balance at beginning of the period/year | **88** | 38 | 38 | **88** | 38 | 38 |
| Additions | **335** | 15 | 90 | **335** | 15 | 90 |
| Amounts written off | **(31)** | (17) | (28) | **(31)** | (17) | (28) |
| Returned to performing or repaid | **(2)** | (9) | (12) | **(2)** | (9) | (12) |
| **Balance at end of the period/year** | **390** | 27 | 88 | **390** | 27 | 88 |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Restructured assets** | | | | | | |
| Balance at beginning of the period/year | **-** | 2 | 2 | **-** | 2 | 2 |
| Additions | **-** | 1 | - | **-** | 1 | - |
| Deletions | **-** | - | (2) | **-** | - | (2) |
| **Balance at end of the period/year** | **-** | 3 | - | **-** | 3 | - |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Past due assets 1 to 89 days[1]** | | | | | | |
| Balance at beginning of the period/year | **589** | 556 | 556 | **589** | 556 | 556 |
| Additions | **2,009** | 1,818 | 3,857 | **2,009** | 1,818 | 3,857 |
| Deletions | **(2,049)** | (1,864) | (3,824) | **(2,049)** | (1,864) | (3,824) |
| **Balance at end of the period/year** | **549** | 510 | 589 | **549** | 510 | 589 |
| **Past due assets 90+ days[1]** | | | | | | |
| Balance at beginning of the period/year | **121** | 73 | 73 | **121** | 73 | 73 |
| Additions | **256** | 167 | 302 | **256** | 167 | 302 |
| Deletions | **(177)** | (99) | (254) | **(177)** | (99) | (254) |
| **Balance at end of the period/year** | **200** | 141 | 121 | **200** | 141 | 121 |
| **Undrawn balance** | **-** | - | - | **-** | - | - |
| **Individually assessed provisions** | | | | | | |
| Balance at beginning of the period/year | **41** | 11 | 11 | **41** | 11 | 11 |
| Impairment charges on loans: | | | | | | |
| New provisions | **158** | 13 | 52 | **158** | 13 | 52 |
| Recoveries | **(2)** | (4) | (11) | **(2)** | (4) | (11) |
| Impairment charges on loans written off | **(23)** | (12) | (11) | **(23)** | (12) | (11) |
| **Balance at end of the period/year** | **174** | 8 | 41 | **174** | 8 | 41 |
| **Collectively assessed provision** | | | | | | |
| Balance at beginning of the period/year | **166** | 125 | 125 | **166** | 125 | 125 |
| Impairment charges on loans | **88** | 6 | 41 | **88** | 6 | 41 |
| **Balance at end of the period/year** | **254** | 131 | 166 | **254** | 131 | 166 |
| **Total impairment provisions** | **428** | 139 | 207 | **428** | 139 | 207 |
| Provisions for impairment on loans | **396** | 119 | 185 | **396** | 119 | 185 |
| Provisions for impairment on off-balance sheet credit exposures | **32** | 20 | 22 | **32** | 20 | 22 |
| **Total impairment provisions** | **428** | 139 | 207 | **428** | 139 | 207 |

1 Past due assets are not impaired assets.

Comparative numbers for the Bank's, and the Banking Group's, past due assets 1-89 days and 90+ days have been restated. Refer to Note 1.6 for further information.

## Note 14 Credit quality

For the purpose of the Banking Group and the Bank's disclosure regarding credit quality, its financial assets have been analysed as follows:

### Analysis by class

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | | |
| | **Neither Past Due nor Impaired $m** | **Past Due but not Impaired $m** | **Impaired $m** | **Total $m** | **Impairment Allowance $m** | **Total Carrying Value $m** |
| Residential mortgages | **30,594** | **1,354** | **320** | **32,268** | **101** | **32,167** |
| Other loans for consumer purposes | **1,454** | **184** | **-** | **1,638** | **62** | **1,576** |
| Loans for business purposes | **13,307** | **749** | **390** | **14,446** | **396** | **14,050** |
| **Total** | **45,355** | **2,287** | **710** | **48,352** | **559** | **47,793** |

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | |
| | Neither Past Due nor Impaired $m | Past Due but not Impaired $m | Impaired $m | Total $m | Impairment Allowance $m | Total Carrying Value $m |
| Residential mortgages | 28,773 | 1,623 | 114 | 30,510 | 48 | 30,462 |
| Other loans for consumer purposes | 1,436 | 210 | - | 1,646 | 60 | 1,586 |
| Loans for business purposes | 12,405 | 651 | 27 | 13,083 | 119 | 12,964 |
| **Total** | 42,614 | 2,484 | 141 | 45,239 | 227 | 45,012 |

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 30 September 2008 – Audited | | | | | |
| | Neither Past Due nor Impaired $m | Past Due but not Impaired $m | Impaired $m | Total $m | Impairment Allowance $m | Total Carrying Value $m |
| Residential mortgages | 29,694 | 1,469 | 190 | 31,353 | 54 | 31,299 |
| Other loans for consumer purposes | 1,479 | 181 | - | 1,660 | 61 | 1,599 |
| Loans for business purposes | 13,284 | 710 | 88 | 14,082 | 185 | 13,897 |
| **Total** | 44,457 | 2,360 | 278 | 47,095 | 300 | 46,795 |

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | | |
| | **Neither Past Due nor Impaired $m** | **Past Due but not Impaired $m** | **Impaired $m** | **Total $m** | **Impairment Allowance $m** | **Total Carrying Value $m** |
| Residential mortgages | **30,491** | **1,354** | **320** | **32,165** | **101** | **32,064** |
| Other loans for consumer purposes | **1,393** | **173** | **-** | **1,566** | **59** | **1,507** |
| Loans for business purposes | **13,307** | **749** | **390** | **14,446** | **396** | **14,050** |
| **Total** | **45,191** | **2,276** | **710** | **48,177** | **556** | **47,621** |

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | |
| | Neither Past Due nor Impaired $m | Past Due but not Impaired $m | Impaired $m | Total $m | Impairment Allowance $m | Total Carrying Value $m |
| Residential mortgages | 28,652 | 1,623 | 114 | 30,389 | 48 | 30,341 |
| Other loans for consumer purposes | 1,372 | 201 | - | 1,573 | 56 | 1,517 |
| Loans for business purposes | 12,405 | 651 | 27 | 13,083 | 119 | 12,964 |
| **Total** | 42,429 | 2,475 | 141 | 45,045 | 223 | 44,822 |

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 30 September 2008 – Audited | | | | | |
| | Neither Past Due nor Impaired $m | Past Due but not Impaired $m | Impaired $m | Total $m | Impairment Allowance $m | Total Carrying Value $m |
| Residential mortgages | 29,582 | 1,469 | 190 | 31,241 | 54 | 31,187 |
| Other loans for consumer purposes | 1,416 | 174 | - | 1,590 | 57 | 1,533 |
| Loans for business purposes | 13,284 | 710 | 88 | 14,082 | 185 | 13,897 |
| **Total** | 44,282 | 2,353 | 278 | 46,913 | 296 | 46,617 |

# Note 14 Credit quality (continued)

## Analysis by investment grade

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | 31 March 2009 – Unaudited | | | |
| | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m |
| Residential mortgages | - | **30,594** | - | **30,594** | - | **30,491** | - | **30,491** |
| Other loans for consumer purposes | - | **1,454** | - | **1,454** | - | **1,393** | - | **1,393** |
| Loans for business purposes | **1,735** | **11,011** | **561** | **13,307** | **1,735** | **11,011** | **561** | **13,307** |
| **Total** | **1,735** | **43,059** | **561** | **45,355** | **1,735** | **42,895** | **561** | **45,191** |

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | 31 March 2008 – Unaudited | | | |
| | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m |
| Residential mortgages | - | 28,773 | - | 28,773 | - | 28,652 | - | 28,652 |
| Other loans for consumer purposes | - | 1,436 | - | 1,436 | - | 1,372 | - | 1,372 |
| Loans for business purposes | 1,903 | 10,151 | 351 | 12,405 | 1,903 | 10,151 | 351 | 12,405 |
| **Total** | 1,903 | 40,360 | 351 | 42,614 | 1,903 | 40,175 | 351 | 42,429 |

| | The Banking Group | | | | The Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | 30 September 2008 – Audited | | | | 30 September 2008 – Audited | | | |
| | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m | Strong $m | Good/ Satisfactory $m | Weak $m | Total $m |
| Residential mortgages | - | 29,694 | - | 29,694 | - | 29,582 | - | 29,582 |
| Other loans for consumer purposes | - | 1,479 | - | 1,479 | - | 1,416 | - | 1,416 |
| Loans for business purposes | 1,735 | 10,909 | 640 | 13,284 | 1,735 | 10,909 | 640 | 13,284 |
| **Total** | 1,735 | 42,082 | 640 | 44,457 | 1,735 | 41,907 | 640 | 44,282 |

The above analysis excludes past due and impaired assets.

All other financial assets are neither past due nor impaired and do not carry any impairment provisions.

Comparative numbers for the Bank and Banking Group have been restated. Refer to Note 1.6 for further information.

# Note 15 Goodwill and other intangible assets

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Goodwill** | | | | | | |
| Cost | **477** | 477 | 477 | **477** | 477 | 477 |
| Accumulated impairment | **-** | - | - | **-** | - | - |
| **Net carrying amount of goodwill** | **477** | 477 | 477 | **477** | 477 | 477 |
| **Computer software** | | | | | | |
| Cost | **227** | 372 | 253 | **227** | 372 | 253 |
| Accumulated amortisation and impairment losses | **(132)** | (254) | (151) | **(132)** | (254) | (151) |
| **Net carrying amount of computer software** | **95** | 118 | 102 | **95** | 118 | 102 |
| **Total goodwill and other intangible assets** | **572** | 595 | 579 | **572** | 595 | 579 |

## Note 15 Goodwill and other intangible assets (continued)

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | Goodwill $m | Computer Software $m | Total $m | Goodwill $m | Computer Software $m | Total $m |
| Balance as at 1 October 2008 | **477** | **102** | **579** | **477** | **102** | **579** |
| Additions | **-** | **15** | **15** | **-** | **15** | **15** |
| Amortisation | **-** | **(22)** | **(22)** | **-** | **(22)** | **(22)** |
| **Net carrying amount as at 31 March 2009 (unaudited)** | **477** | **95** | **572** | **477** | **95** | **572** |
| Balance as at 1 October 2007 | 477 | 126 | 603 | 477 | 126 | 603 |
| Additions | - | 14 | 14 | - | 14 | 14 |
| Amortisation | - | (22) | (22) | - | (22) | (22) |
| **Net carrying amount as at 31 March 2008 (unaudited)** | 477 | 118 | 595 | 477 | 118 | 595 |
| Balance as at 1 October 2007 | 477 | 126 | 603 | 477 | 126 | 603 |
| Additions | - | 38 | 38 | - | 38 | 38 |
| Amortisation | - | (49) | (49) | - | (49) | (49) |
| Impairment charges | - | (13) | (13) | - | (13) | (13) |
| **Net carrying amount as at 30 September 2008 (audited)** | 477 | 102 | 579 | 477 | 102 | 579 |

Goodwill is allocated to and tested for impairment as a part of its identified CGUs. The Banking Group is the CGU that the goodwill has been allocated to.

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

## Note 16 Property, plant and equipment

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Leasehold improvements** | | | | | | |
| Cost | **158** | 140 | 151 | **1** | 1 | 1 |
| Accumulated depreciation and impairment losses | **(96)** | (96) | (106) | **(1)** | (1) | (1) |
| **Net carrying amount of leasehold improvements** | **62** | 44 | 45 | **-** | - | - |
| **Furniture and equipment** | | | | | | |
| Cost | **193** | 211 | 195 | **97** | 117 | 107 |
| Accumulated depreciation and impairment losses | **(165)** | (173) | (164) | **(87)** | (102) | (96) |
| **Net carrying amount of furniture and equipment** | **28** | 38 | 31 | **10** | 15 | 11 |
| **Total property, plant and equipment** | **90** | 82 | 76 | **10** | 15 | 11 |

## Note 16 Property, plant and equipment (continued)

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | Leasehold Improve-ments $m | Furniture and Equipment $m | Total $m | Leasehold Improve-ments $m | Furniture and Equipment $m | Total $m |
| Balance as at 1 October 2008 | **45** | **31** | **76** | - | **11** | **11** |
| Additions | **21** | **2** | **23** | - | **1** | **1** |
| Depreciation | **(4)** | **(5)** | **(9)** | - | **(2)** | **(2)** |
| **Net carrying amount as at 31 March 2009 (unaudited)** | **62** | **28** | **90** | - | **10** | **10** |
| Balance as at 1 October 2007 | 44 | 44 | 88 | - | 17 | 17 |
| Additions | 5 | 2 | 7 | - | 2 | 2 |
| Depreciation | (5) | (8) | (13) | - | (4) | (4) |
| **Net carrying amount as at 31 March 2008 (unaudited)** | 44 | 38 | 82 | - | 15 | 15 |
| Balance as at 1 October 2007 | 44 | 44 | 88 | - | 17 | 17 |
| Additions | 17 | 3 | 20 | - | 3 | 3 |
| Depreciation | (10) | (14) | (24) | - | (7) | (7) |
| Impairment charges | (6) | (2) | (8) | - | (2) | (2) |
| **Net carrying amount as at 30 September 2008 (audited)** | 45 | 31 | 76 | - | 11 | 11 |

### Property, plant and equipment under construction

As at 31 March 2009, there are no items of property, plant and equipment that are currently under construction (31 March 2008: nil, 30 September 2008: nil).

## Note 17 Deferred tax assets

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Deferred tax assets are attributable to the following: | | | | | | |
| Property, plant and equipment | **5** | 6 | 4 | **(5)** | (5) | (5) |
| Provision for loan impairment | **178** | 82 | 97 | **177** | 75 | 97 |
| Provision for employee entitlements | **22** | 20 | 28 | **22** | 20 | 28 |
| Other temporary differences | **3** | (8) | 2 | **1** | (1) | - |
| Set off of deferred tax liabilities (refer to Note 22) | **8** | (7) | 1 | **8** | (7) | 1 |
| **Balance at end of the period/year** | **216** | 93 | 132 | **203** | 82 | 121 |
| **Movements** | | | | | | |
| Balance at beginning of the period/year | **132** | 87 | 87 | **121** | 76 | 76 |
| Prior period/year adjustments | **3** | - | (4) | **3** | - | (4) |
| Set off of deferred tax liabilities (refer to Note 22) | **8** | (7) | 1 | **8** | (7) | 1 |
| Credited to the income statement (refer to Note 7) | **73** | 7 | 44 | **73** | 6 | 44 |
| (Charged)/credited to equity | **(2)** | 9 | 10 | **(2)** | 9 | 10 |
| Other temporary differences | **2** | - | - | **-** | - | - |
| Change to corporate tax rate (refer to Note 7) | **-** | (3) | (6) | **-** | (2) | (6) |
| **Balance at end of the period/year** | **216** | 93 | 132 | **203** | 82 | 121 |

## Note 18 Other assets

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Accrued interest receivable | **128** | 150 | 160 | **126** | 149 | 158 |
| Deferred expenditure (after accumulated amortisation of nil (31 March 2008: nil, 30 September 2008: nil)) | **-** | 2 | - | **-** | 2 | - |
| Other assets | **29** | 50 | 23 | **28** | 50 | 18 |
| **Total other assets** | **157** | 202 | 183 | **154** | 201 | 176 |

## Note 19 Deposits

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Deposits at fair value** | | | | | | |
| Certificates of deposit | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| **Total deposits at fair value** | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| **Deposits at amortised cost** | | | | | | |
| Non-interest bearing, repayable at call | **2,225** | 2,145 | 2,030 | **2,225** | 2,145 | 2,030 |
| Other interest bearing: | | | | | | |
| At call | **10,925** | 10,565 | 10,951 | **10,925** | 10,565 | 10,951 |
| Term | **15,469** | 14,930 | 15,083 | **15,469** | 14,930 | 15,083 |
| **Total deposits at amortised cost** | **28,619** | 27,640 | 28,064 | **28,619** | 27,640 | 28,064 |
| **Total deposits** | **32,688** | 31,924 | 32,227 | **32,688** | 31,924 | 32,227 |

## Note 20 Other trading liabilities at fair value

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Held for trading** | | | | | | |
| Securities sold under agreements to repurchase | **2,297** | - | - | **2,297** | - | - |
| **Total other trading liabilities at fair value** | **2,297** | - | - | **2,297** | - | - |

## Note 21 Debt issues

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Short-term debt** | | | | | | |
| Commercial paper | **7,588** | 7,707 | 6,517 | **-** | - | - |
| **Total short-term debt** | **7,588** | 7,707 | 6,517 | **-** | - | - |
| **Long-term debt** | | | | | | |
| Euro medium-term notes | **3,904** | 3,500 | 4,585 | **1,753** | 716 | 1,582 |
| Corporate bonds | **-** | 53 | - | **-** | - | - |
| **Total long-term debt** | **3,904** | 3,553 | 4,585 | **1,753** | 716 | 1,582 |
| **Total debt issues** | **11,492** | 11,260 | 11,102 | **1,753** | 716 | 1,582 |

## Note 22 Deferred tax liabilities

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Deferred tax liabilities are attributable to the following: | | | | | | |
| Amounts recognised directly in equity | **(8)** | 7 | (1) | **(8)** | 7 | (1) |
| Set off of deferred tax assets (refer to Note 17) | **8** | (7) | 1 | **8** | (7) | 1 |
| **Balance at end of the period/year** | **-** | - | - | **-** | - | - |
| **Movements** | | | | | | |
| Balance at beginning of the period/year | **-** | - | - | **-** | - | - |
| Set off of deferred tax assets (refer to Note 17) | **8** | (7) | 1 | **8** | (7) | 1 |
| (Credited)/charged to the income statement (refer to Note 7) | **(2)** | - | 11 | **(2)** | - | 11 |
| (Credited)/charged to equity | **(6)** | 7 | (12) | **(6)** | 7 | (12) |
| **Balance at end of the period/year** | **-** | - | - | **-** | - | - |

As at 31 March 2009, the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (31 March 2008: nil, 30 September 2008: nil).

# Note 23 Provisions

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Long service leave | **7** | 8 | 7 | **7** | 8 | 7 |
| Annual leave and other staff benefits | **25** | 18 | 33 | **25** | 18 | 33 |
| Non-lending losses | **5** | 2 | 5 | **5** | 2 | 5 |
| Provisions for impairment on off-balance sheet credit exposures | **32** | 20 | 22 | **32** | 20 | 22 |
| **Total provisions** | **69** | 48 | 67 | **69** | 48 | 67 |

| | **Long Service Leave $m** | **Annual Leave and Other Staff Benefits $m** | **Non-lending Losses $m** | **Off-balance Sheet Provisions $m** | **Total $m** |
|---|---|---|---|---|---|
| **The Banking Group** | | | | | |
| Balance as at 1 October 2008 | **7** | **33** | **5** | **22** | **67** |
| Additional provisions recognised | **-** | **8** | **1** | **10** | **19** |
| Utilised during the period | **-** | **(16)** | **(1)** | **-** | **(17)** |
| **Balance as at 31 March 2009 (unaudited)** | **7** | **25** | **5** | **32** | **69** |
| **The Bank** | | | | | |
| Balance as at 1 October 2008 | **7** | **33** | **5** | **22** | **67** |
| Additional provisions recognised | **-** | **8** | **1** | **10** | **19** |
| Utilised during the period | **-** | **(16)** | **(1)** | **-** | **(17)** |
| **Balance as at 31 March 2009 (unaudited)** | **7** | **25** | **5** | **32** | **69** |

| | Long Service Leave $m | Annual Leave and Other Staff Benefits $m | Non-lending Losses $m | Off-balance Sheet Provisions $m | Total $m |
|---|---|---|---|---|---|
| **The Banking Group** | | | | | |
| Balance as at 1 October 2007 | 7 | 25 | 2 | 20 | 54 |
| Additional provisions recognised | 1 | 8 | 1 | - | 10 |
| Utilised during the period | - | (15) | (1) | - | (16) |
| **Balance as at 31 March 2008 (unaudited)** | 8 | 18 | 2 | 20 | 48 |
| **The Bank** | | | | | |
| Balance as at 1 October 2007 | 7 | 25 | 2 | 19 | 53 |
| Additional provisions recognised | 1 | 8 | 1 | 1 | 11 |
| Utilised during the period | - | (15) | (1) | - | (16) |
| **Balance as at 31 March 2008 (unaudited)** | 8 | 18 | 2 | 20 | 48 |

| | Long Service Leave $m | Annual Leave and Other Staff Benefits $m | Non-lending Losses $m | Off-balance Sheet Provisions $m | Total $m |
|---|---|---|---|---|---|
| **The Banking Group** | | | | | |
| Balance as at 1 October 2007 | 7 | 25 | 2 | 20 | 54 |
| Additional provisions recognised | 1 | 20 | 3 | 2 | 26 |
| Utilised during the year | (1) | (12) | - | - | (13) |
| **Balance as at 30 September 2008 (audited)** | 7 | 33 | 5 | 22 | 67 |
| **The Bank** | | | | | |
| Balance as at 1 October 2007 | 7 | 25 | 2 | 19 | 53 |
| Additional provisions recognised | 1 | 20 | 3 | 3 | 27 |
| Utilised during the year | (1) | (12) | - | - | (13) |
| **Balance as at 30 September 2008 (audited)** | 7 | 33 | 5 | 22 | 67 |

## Note 24 Other liabilities

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Accrued interest payable | **277** | 372 | 455 | **253** | 284 | 355 |
| Credit card loyalty programme | **26** | 30 | 25 | **26** | 30 | 25 |
| Other liabilities | **201** | 185 | 216 | **189** | 181 | 208 |
| **Total other liabilities** | **504** | 587 | 696 | **468** | 495 | 588 |

## Note 25 Priority of financial liabilities in the event of liquidation

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Deposits at amortised cost | **28,619** | 27,640 | 28,064 | **28,619** | 27,640 | 28,064 |
| Deposits at fair value | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| Debt issues | **11,492** | 11,260 | 11,102 | **1,753** | 716 | 1,582 |
| Other trading liabilities at fair value | **2,297** | - | - | **2,297** | - | - |
| Derivative financial instruments | **-** | 8 | - | **-** | 8 | - |
| Other liabilities | **504** | 587 | 696 | **468** | 495 | 588 |
| Perpetual subordinated notes | **970** | 970 | 970 | **970** | 970 | 970 |
| Due to related entities | **2,584** | 964 | 2,249 | **20,293** | 11,454 | 11,843 |
| **Total financial liabilities** | **50,535** | 45,713 | 47,244 | **58,469** | 45,567 | 47,210 |

## Note 26 Perpetual subordinated notes

These notes have been issued to Westpac New Zealand Group Limited. The notes have no final maturity date, but may be redeemed at par only at the option of the Bank. The notes pay quarterly distributions provided that at the time payment is made the Bank will be solvent immediately after payment. The notes are direct and unsecured obligations of the Bank and are subordinated to the claims of all creditors (including depositors) of the Bank other than those creditors whose claims against the Bank are expressed to rank equally with or after the claims of the note holder.

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Perpetual subordinated notes | **970** | 970 | 970 | **970** | 970 | 970 |
| **Total subordinated notes** | **970** | 970 | 970 | **970** | 970 | 970 |

## Note 27 Share capital

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares |
| Ordinary shares at beginning of the period/year | **3,250,001,000** | 2,415,001,000 | 2,415,001,000 | **3,250,001,000** | 2,415,001,000 | 2,415,001,000 |
| Shares issued during the period/year | **220,000,000** | 85,000,000 | 835,000,000 | **220,000,000** | 85,000,000 | 835,000,000 |
| **Ordinary shares at end of the period/year** | **3,470,001,000** | 2,500,001,000 | 3,250,001,000 | **3,470,001,000** | 2,500,001,000 | 3,250,001,000 |
| | **$m** | $m | $m | **$m** | $m | $m |
| Ordinary shares at beginning of the period/year | **3,250** | 2,415 | 2,415 | **3,250** | 2,415 | 2,415 |
| Shares issued during the period/year | **220** | 85 | 835 | **220** | 85 | 835 |
| **Ordinary shares at end of the period/year** | **3,470** | 2,500 | 3,250 | **3,470** | 2,500 | 3,250 |

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares |
| Redeemable preference shares at beginning of the period/year | **1,300,000,000** | - | - | **1,300,000,000** | - | - |
| Shares (redeemed)/issued during the period/year | **(1,300,000,000)** | 1,300,000,000 | 1,300,000,000 | **(1,300,000,000)** | 1,300,000,000 | 1,300,000,000 |
| **Redeemable preference shares at end of the period/year** | - | 1,300,000,000 | 1,300,000,000 | - | 1,300,000,000 | 1,300,000,000 |
| | **$m** | $m | $m | **$m** | $m | $m |
| Redeemable preference shares at beginning of the period/year | **1,300** | - | - | **1,300** | - | - |
| Shares (redeemed)/issued during the period/year | **(1,300)** | 1,300 | 1,300 | **(1,300)** | 1,300 | 1,300 |
| **Redeemable preference shares at end of the period/year** | - | 1,300 | 1,300 | - | 1,300 | 1,300 |

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares | **31 March 2009 Unaudited Number of Issued Shares** | 31 March 2008 Unaudited Number of Issued Shares | 30 September 2008 Audited Number of Issued Shares |
| B Voting shares at beginning of the period/year | **20,000** | - | - | **20,000** | - | - |
| Shares issued during the period/year | - | 20,000 | 20,000 | - | 20,000 | 20,000 |
| **B Voting shares at end of the period/year** | **20,000** | 20,000 | 20,000 | **20,000** | 20,000 | 20,000 |
| | **$m** | $m | $m | **$m** | $m | $m |
| B Voting shares at beginning of the period/year | **0.02** | - | - | **0.02** | - | - |
| Shares issued during the period/year | - | 0.02 | 0.02 | - | 0.02 | 0.02 |
| **B Voting shares at end of the period/year** | **0.02** | 0.02 | 0.02 | **0.02** | 0.02 | 0.02 |

All shares issued are fully paid as at balance date. On 1 February 2008, the Bank issued 85,000,000 ordinary shares for $85,000,000. On 20 February 2008, the Bank issued 20,000 B Voting shares for $20,000 and 1,300,000,000 redeemable preference shares ('**RPS**') for $1,300,000,000. On 29 August 2008, the Bank issued 750,000,000 ordinary shares for $750,000,000. On 22 October 2008, the Bank issued 220,000,000 ordinary shares for $220,000,000. The RPS were redeemed on 18 February 2009 for $1,300,000,000. In accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B), ordinary share capital is classified as Tier One Capital. The B Voting shares are classified as Tier Two Capital and the RPS are not included in capital, so are neither Tier One nor Tier Two Capital.

### Ordinary shares

The ordinary shares in the Bank confer on their holder the rights described in section 36 of the Companies Act 1993, i.e. subject to the constitution of the Bank, each share carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation. Under the constitution of the Bank, there is provision for the Board to authorise a dividend which is of a greater value per share for some shares than it is for others, so long as the amount paid is in proportion to the amount paid up on the shares.

## Note 27 Share capital (continued)

### Redeemable preference shares

The 1,300,000,000 RPS were issued for consideration of $1 per share. The holders of RPS had no voting rights. The RPS had a term of 100 years and could be redeemed at any time at the option of the Bank (on 30 days notice) for their issue price. There were restrictions on the transfer of the RPS.

Dividends are non-cumulative and payable quarterly (at the discretion of the Board) on a formula based on a swap rate of 8.02% per annum plus a margin of 1% per annum. Payment of dividends and capital in the event of liquidation are to be made in priority to those on ordinary shares, but parri passu with those on the B Voting shares (as described below).

The RPS were redeemed at their issue price on 18 February 2009.

### B Voting shares

The holder of each B Voting share is entitled to cast 31,250 votes at meetings of shareholders (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast). Dividends are payable on the same terms as the RPS but now that the RPS have been redeemed, no dividends are payable on the B Voting shares.

## Note 28 Related entities

### Bank

The Bank is a subsidiary of Westpac New Zealand Group Limited. The ultimate parent bank of the Bank is Westpac Banking Corporation.

### Banking Group

The Banking Group consists of the Bank and all its subsidiaries. As at 31 March 2009, the Bank has the following subsidiaries:

| Name of Subsidiary | Principal Activity | Notes |
|---|---|---|
| Westpac NZ Operations Limited | Holding company | |
| Westpac Securities NZ Limited | Funding company | |
| Westpac (NZ) Investments Limited | Property owning and capital funding company | |
| The Home Mortgage Company Limited | Residential mortgage company | |
| The Warehouse Financial Services Limited | Financial services company | 51% owned |
| Westpac NZ Securitisation Holdings Limited | Holding company | Incorporated 14 October 2008<br>9.5% owned |
| Westpac NZ Securitisation Limited | Investment company | Incorporated 14 October 2008 |

The Banking Group together with its subsidiaries provide retail and corporate banking services.

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the Banking Group have a balance date of 30 September and are incorporated in New Zealand.

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The Banking Group, through its subsidiary, Westpac NZ Operations Limited, has a qualifying interest of 9.5% in WNZSHL. Through contractual arrangements put in place, the Banking Group is deemed to control both WNZSHL and WNZSL.

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

- Electronic Transaction Services Limited; and
- Interchange and Settlement Limited.

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

### Investment in associate

During the previous financial period, following the VISA Inc Initial Public Offering ('**Visa Inc IPO**'), the Banking Group's relationship with Cards NZ Limited changed and this entity is now equity accounted as an associate. The Banking Group has equity accounted its share of the VISA Inc IPO transaction.

The Banking Group holds 15.4 % of Cards NZ Limited's equity plus one Visa Inc access preference share.

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Balance at beginning of the period/year | **48** | - | - | **-** | - | - |
| Equity share of net profit | **-** | 48 | 48 | **-** | - | - |
| **Balance at end of the period/year** | **48** | 48 | 48 | **-** | - | - |

# Note 28 Related entities (continued)

## Due to related entities

The Banking Group has issued a promissory note to Cards NZ Limited in relation to the purchase of VISA Inc shares. The promissory note bears interest at market rates and will be defeased through an in-kind distribution upon liquidation of Cards NZ Limited.

## Nature of transactions

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

The Bank and the Ultimate Parent Bank provide loans to the members of the Banking Group. Interest is paid on these loans at market rates.

The NZ Branch had a loan of $1.3 billion from the Bank, which was repaid by the NZ Branch during the current reporting period. Interest was paid on this loan at market rates.

The Bank pays subvention payments to the members of the Ultimate Parent Bank's New Zealand group for the use of tax losses. The total payment made by the Bank for the six months ended 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: $150 million). Payments made for tax loss transfers between members of the Ultimate Parent Bank's New Zealand group are determined having regard to the circumstances of the entities and the value of the tax losses.

The Bank provided funding to WNZSL, in relation to securitisation activities, during the period (refer to Note 36).

Life insurance products are sold by the Bank on behalf of the Ultimate Parent Bank. The Bank receives commission from these sales. Commission received for the six months ended 31 March 2009 was $18 million (31 March 2008: $13 million, 30 September 2008: $36 million).

The Ultimate Parent Bank provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Bank. The Bank receives commission from these sales. Commission received for the six months ended 31 March 2009 was $7 million (31 March 2008: $4 million, 30 September 2008: $12 million).

Managed funds products are sold by the Bank on behalf of the Ultimate Parent Bank. The Bank receives commission from these sales. Commission received for the six months ended 31 March 2009 was $3 million (31 March 2008: $3 million, 30 September 2008: $6 million).

The Ultimate Parent Bank provides enterprise management services to the Bank for which it received a service fee of nil for the six months ended 31 March 2009 (31 March 2008: nil, 30 September 2008: $11 million).

The Bank provides corporate office support services to members of the Ultimate Parent Bank for which the Bank received a service fee of nil for the six months ended 31 March 2009 (31 March 2008: nil, 30 September 2008: $2 million).

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid for the six months ended 31 March 2009 were $3 million (31 March 2008: $3 million, 30 September 2008: $5 million). Rental income is paid by the Bank to Westpac (NZ) Investments Limited. The total charge for the six months ended 31 March 2009 was $37 million (31 March 2008: $37 million, 30 September 2008: $77 million).

A member of the Banking Group provides funding to the Bank. Management fees are paid by the Bank for these services. Management fees paid for the six months ended 31 March 2009 were $1 million (31 March 2008: nil, 30 September 2008: $1 million).

The Bank guarantees all payment obligations in respect to debt issues issued by the subsidiary entities in the Banking Group.

On 1 February 2008, the Bank issued 85,000,000 ordinary shares to Westpac New Zealand Group Limited, its parent company, for $85,000,000.

On 29 August 2008, the Bank issued 750,000,000 ordinary shares to Westpac New Zealand Group Limited, its parent company, for $750,000,000.

On 22 October 2008, the Bank issued 220,000,000 ordinary shares to Westpac New Zealand Group Limited, its parent company, for $220,000,000.

On 20 February 2008, the Bank issued 20,000 B Voting shares for $20,000 and 1,300,000,000 RPS for $1,300,000,000. The B Voting shares and RPS were issued as part of transactions with Westpac Overseas Holdings No. 2 Pty Limited, and Sixty Martin Place (Holdings) Pty Limited (a subsidiary of the Ultimate Parent Bank) as general partner of the Westpac Pacific Limited Partnership (the '**Partnership**'). The Partnership subscribed for the RPS. On 18 February 2009, the RPS were redeemed in full.

During the previous financial year, the Banking Group purchased VISA Inc shares from Cards NZ Limited at fair market value totalling $48 million. The purchase was satisfied through the issue of an interest bearing promissory note. Interest paid on the promissory note during the six months ended 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: $1 million).

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

## Note 29 Derivative financial instruments

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

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

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

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

The Banking Group uses derivatives as an end-user as part of its asset and liability management activities.

### Hedging

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

#### *Fair value hedges*

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

For the Banking Group, the change in the fair value of hedging instruments designated in fair value hedges was a $411 million loss (31 March 2008: $73 million gain, 30 September 2008: $404 million loss) while the change in the fair value of hedged items, attributed to the hedge risk was a $413 million gain (31 March 2008: $78 million loss, 30 September 2008: $403 million gain).

For the Bank, the change in the fair value of hedging instruments designated in fair value hedges was a $411 million loss (31 March 2008: $73 million gain, 30 September 2008: $404 million loss) while the change in the fair value of hedged items, attributed to the hedge risk was a $413 million gain (31 March 2008: $78 million loss, 30 September 2008: $403 million gain).

#### *Cash flow hedges*

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps.

All derivatives for the Banking Group are held in the Bank. Derivatives with related parties are included in due from/due to related entities.

**Derivatives held with external counterparties**

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 31 March 2009 – Unaudited | | |
| | Notional $m | Fair value Asset $m | Fair value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | **577** | **26** | **-** |
| **Total held for trading derivatives** | **577** | **26** | **-** |
| **Total derivatives** | **577** | **26** | **-** |

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 31 March 2008 – Unaudited | | |
| | Notional $m | Fair value Asset $m | Fair value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 680 | 2 | (8) |
| **Total held for trading derivatives** | 680 | 2 | (8) |
| **Total derivatives** | 680 | 2 | (8) |

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 30 September 2008 – Audited | | |
| | Notional $m | Fair value Asset $m | Fair value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 600 | 12 | - |
| **Total held for trading derivatives** | 600 | 12 | - |
| **Total derivatives** | 600 | 12 | - |

# Note 29 Derivative financial instruments (continued)

***Derivatives held with related parties***

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 31 March 2009 – Unaudited | | |
| | Notional $m | Fair Value Asset $m | Fair Value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | **33,324** | **36** | **(38)** |
| **Foreign exchange derivatives** | | | |
| Swaps | **9,692** | **236** | **(540)** |
| **Total held for trading derivatives** | **43,016** | **272** | **(578)** |
| **Fair value hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | **14,499** | **-** | **(804)** |
| **Total fair value hedging derivatives** | **14,499** | **-** | **(804)** |
| **Cash flow hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | **1,147** | **8** | **(34)** |
| **Total cash flow hedging derivatives** | **1,147** | **8** | **(34)** |
| **Total derivatives** | **58,662** | **280** | **(1,416)** |

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 31 March 2008 – Unaudited | | |
| | Notional $m | Fair Value Asset $m | Fair Value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Foreign exchange derivatives** | | | |
| Swaps | 6,753 | 33 | - |
| **Total held for trading derivatives** | 6,753 | 33 | - |
| **Fair value hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 19,972 | 117 | (57) |
| **Foreign exchange derivatives** | | | |
| Swaps | 3,251 | 24 | (89) |
| **Total fair value hedging derivatives** | 23,223 | 141 | (146) |
| **Cash flow hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 1,607 | 26 | - |
| **Total cash flow hedging derivatives** | 1,607 | 26 | - |
| **Total derivatives** | 31,583 | 200 | (146) |

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | 30 September 2008 – Audited | | |
| | Notional $m | Fair Value Asset $m | Fair Value (Liability) $m |
| **Held for trading derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 26,747 | 37 | (37) |
| **Foreign exchange derivatives** | | | |
| Swaps | 9,298 | 231 | (70) |
| **Total held for trading derivatives** | 36,045 | 268 | (107) |
| **Fair value hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 21,274 | 8 | (316) |
| **Total fair value hedging derivatives** | 21,274 | 8 | (316) |
| **Cash flow hedging derivatives** | | | |
| **Interest rate derivatives** | | | |
| Swaps | 1,164 | 2 | (4) |
| **Total cash flow hedging derivatives** | 1,164 | 2 | (4) |
| **Total derivatives** | 58,483 | 278 | (427) |

## Note 29 Derivative financial instruments (continued)

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

| | The Banking Group and The Bank 31 March 2009 – Unaudited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less Than 1 Month %** | **1 Month to 3 Months %** | **3 Months to 1 Year %** | **1 Year to 2 Years %** | **2 Years to 3 Years %** | **3 Years to 4 Years %** | **4 Years to 5 Years %** | **Over 5 Years %** |
| Cash inflows (assets) | **1** | **7** | **18** | **24** | **23** | **14** | **10** | **3** |
| Cash outflows (liabilities) | **2** | **8** | **20** | **24** | **22** | **13** | **10** | **1** |

| | The Banking Group and The Bank 31 March 2008 – Unaudited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less Than 1 Month % | 1 Month to 3 Months % | 3 Months to 1 Year % | 1 Year to 2 Years % | 2 Years to 3 Years % | 3 Years to 4 Years % | 4 Years to 5 Years % | Over 5 Years % |
| Cash inflows (assets) | 6 | 10 | 32 | 25 | 18 | 9 | - | - |
| Cash outflows (liabilities) | 5 | 9 | 31 | 26 | 19 | 10 | - | - |

| | The Banking Group and The Bank 30 September 2008 – Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less Than 1 Month % | 1 Month to 3 Months % | 3 Months to 1 Year % | 1 Year to 2 Years % | 2 Years to 3 Years % | 3 Years to 4 Years % | 4 Years to 5 Years % | Over 5 Years % |
| Cash inflows (assets) | 2 | 14 | 31 | 28 | 21 | 4 | - | - |
| Cash outflows (liabilities) | 2 | 12 | 30 | 30 | 22 | 4 | - | - |

For the six months ended 31 March 2009, no material gain/loss on cash flow hedges was recognised due to hedge ineffectiveness (31 March 2008: nil, 30 September 2008: nil) in the Banking Group or the Bank. Gain/loss on fair value hedges due to hedge ineffectiveness recognised for the Banking Group and the Bank for the six months ended 31 March 2009, amounted to a $2 million gain (31 March 2008: $1 million loss, 30 September 2008: $1 million loss).

## Note 30 Interest earning assets and interest bearing liabilities

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Interest earning and discount bearing assets | **53,671** | 48,997 | 51,430 | **61,329** | 48,624 | 51,145 |
| Interest and discount bearing liabilities | **46,554** | 42,973 | 44,203 | **54,505** | 42,919 | 44,289 |

## Note 31 Fair value of financial instruments

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

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

### Certain short-term financial instruments

For cash and short-term liquid assets, amounts due from other banks with maturities of less than three months, and other types of short-term financial instruments recognised in the balance sheet under 'other assets' and 'other liabilities', the carrying amount is equivalent to the fair value.

### Trading securities

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

### Loans

The fair value of loans is determined by discounting all future cash flows, including interest accruals. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.

### Deposits

Deposits by customer accounts are grouped by maturity. Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities.

## Note 31 Fair value of financial instruments (continued)

### Debt issues

The estimated fair value of debt issues is based on market quoted prices, where available. The fair value of debt issues where a market quote is not available is based on discounted cash flows, using a rate appropriate to the instrument and the term of the issue.

### Perpetual subordinated notes

The fair value is calculated using suitable discounted cash flow and option pricing models. The interest rates applied in the valuation models are appropriate to the remaining term of the debt issue.

### Other financial assets and liabilities

The carrying amount of these items is a reasonable approximation of fair value as they are either short-term in nature, reprice frequently or are of a high credit rating.

### Exchange rate and interest rate contracts

For exchange rate and interest rate contracts, fair values are obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The carrying amount and fair value for these contracts are included in derivative financial instruments and amounts due from/to related entities, as applicable.

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Carrying Amount Unaudited $m** | **31 March 2009 Estimated Fair Value Unaudited $m** | 31 March 2008 Carrying Amount Unaudited $m | 31 March 2008 Estimated Fair Value Unaudited $m | 30 September 2008 Carrying Amount Audited $m | 30 September 2008 Estimated Fair Value Audited $m |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | **320** | **320** | 137 | 137 | 110 | 110 |
| Due from other financial institutions | **3** | **3** | 2 | 2 | 3 | 3 |
| Derivative financial instruments | **26** | **26** | 2 | 2 | 12 | 12 |
| Other trading securities | **4,652** | **4,652** | 1,356 | 1,356 | 1,973 | 1,973 |
| Available-for-sale securities | **38** | **38** | 30 | 30 | 35 | 35 |
| Loans | **47,793** | **48,434** | 45,012 | 44,522 | 46,795 | 46,701 |
| Due from related entities | **453** | **453** | 2,352 | 2,352 | 2,349 | 2,349 |
| Investment in associate | **48** | **48** | 48 | 48 | 48 | 48 |
| Other financial assets | **157** | **157** | 202 | 202 | 183 | 183 |
| **Total financial assets** | **53,490** | **54,131** | 49,141 | 48,651 | 51,508 | 51,414 |
| Non-financial assets | **878** | **N/A** | 770 | N/A | 787 | N/A |
| **Total assets** | **54,368** | | 49,911 | | 52,295 | |
| **Financial liabilities** | | | | | | |
| Deposits at fair value | **4,069** | **4,069** | 4,284 | 4,284 | 4,163 | 4,163 |
| Deposits at amortised cost | **28,619** | **28,703** | 27,640 | 27,670 | 28,064 | 28,098 |
| Derivative financial instruments | **-** | **-** | 8 | 8 | - | - |
| Other trading liabilities at fair value | **2,297** | **2,297** | - | - | - | - |
| Debt issues | **11,492** | **11,533** | 11,260 | 11,341 | 11,102 | 11,214 |
| Other financial liabilities | **504** | **504** | 587 | 587 | 696 | 696 |
| Perpetual subordinated notes | **970** | **970** | 970 | 970 | 970 | 970 |
| Due to related entities | **2,584** | **2,584** | 964 | 964 | 2,249 | 2,249 |
| **Total financial liabilities** | **50,535** | **50,660** | 45,713 | 45,824 | 47,244 | 47,390 |
| Non-financial liabilities | **185** | **N/A** | 61 | N/A | 136 | N/A |
| **Total liabilities** | **50,720** | | 45,774 | | 47,380 | |

## Note 31 Fair value of financial instruments (continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Carrying Amount Unaudited $m** | **31 March 2009 Estimated Fair Value Unaudited $m** | 31 March 2008 Carrying Amount Unaudited $m | 31 March 2008 Estimated Fair Value Unaudited $m | 30 September 2008 Carrying Amount Audited $m | 30 September 2008 Estimated Fair Value Audited $m |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | **320** | **320** | 133 | 133 | 110 | 110 |
| Derivative financial instruments | **26** | **26** | 2 | 2 | 12 | 12 |
| Other trading securities | **4,652** | **4,652** | 1,356 | 1,356 | 1,973 | 1,973 |
| Available-for-sale securities | **38** | **38** | 30 | 30 | 35 | 35 |
| Loans | **47,621** | **48,262** | 44,822 | 44,332 | 46,617 | 46,523 |
| Due from related entities | **8,385** | **8,385** | 2,222 | 2,222 | 2,305 | 2,305 |
| Investments in related entities | **281** | **281** | 238 | 238 | 238 | 238 |
| Other financial assets | **154** | **154** | 201 | 201 | 176 | 176 |
| **Total financial assets** | **61,477** | **62,118** | 49,004 | 48,514 | 51,466 | 51,372 |
| Non-financial assets | **785** | **N/A** | 692 | N/A | 711 | N/A |
| **Total assets** | **62,262** | | 49,696 | | 52,177 | |
| **Financial liabilities** | | | | | | |
| Deposits at fair value | **4,069** | **4,069** | 4,284 | 4,284 | 4,163 | 4,163 |
| Deposits at amortised cost | **28,619** | **28,703** | 27,640 | 27,670 | 28,064 | 28,098 |
| Derivative financial instruments | **-** | **-** | 8 | 8 | - | - |
| Other trading liabilities at fair value | **2,297** | **2,297** | - | - | - | - |
| Debt issues | **1,753** | **1,789** | 716 | 725 | 1,582 | 1,612 |
| Other financial liabilities | **468** | **468** | 495 | 495 | 588 | 588 |
| Perpetual subordinated notes | **970** | **970** | 970 | 970 | 970 | 970 |
| Due to related entities | **20,293** | **20,293** | 11,454 | 11,454 | 11,843 | 11,843 |
| **Total financial liabilities** | **58,469** | **58,589** | 45,567 | 45,606 | 47,210 | 47,274 |
| Non-financial liabilities | **181** | **N/A** | 63 | N/A | 135 | N/A |
| **Total liabilities** | **58,650** | | 45,630 | | 47,345 | |

The total amount of the change in fair value, estimated using a valuation technique, but incorporating significant non-observable inputs, that was recognised in the income statement during the six months ended 31 March 2009 in the Banking Group and the Bank was nil (31 March 2008: nil, 30 September 2008: nil).

## Note 32 Commitments and contingent liabilities

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

The 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 Banking Group's option.

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

The Banking Group takes collateral where it is considered necessary to support, both on and off-balance sheet, financial instruments with credit risk. The 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.

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Banking Group, the Bank considers these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make payment under the guarantee. The Bank guarantees commercial paper and other debt securities issued by Westpac Securities NZ Limited the proceeds of which, in accordance with Reserve Bank of New Zealand guidelines, are immediately on-lent to the Bank. Guarantees outstanding as at 31 March 2009 were New Zealand dollar equivalent $9,739 million (31 March 2008: $10,545 million, 30 September 2008: $9,520 million).

## Note 32 Commitments and contingent liabilities (continued)

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

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Commitments for capital expenditure** | | | | | | |
| Due within one year | **36** | 58 | 47 | **36** | 58 | 47 |
| **Other expenditure commitments:** | | | | | | |
| One year or less | **71** | 67 | 67 | **71** | 67 | 67 |
| Between one and five years | **69** | 131 | 67 | **69** | 131 | 67 |
| Over five years | **-** | - | - | **-** | - | - |
| **Total other expenditure commitments** | **140** | 198 | 134 | **140** | 198 | 134 |
| **Lease commitments (all leases are classified as operating leases)** | | | | | | |
| Premises and sites | **210** | 236 | 228 | **210** | 236 | 228 |
| Motor vehicles | **3** | 3 | 4 | **3** | 3 | 4 |
| **Total lease commitments** | **213** | 239 | 232 | **213** | 239 | 232 |
| **Lease commitments are due as follows:** | | | | | | |
| One year or less | **21** | 20 | 42 | **21** | 20 | 42 |
| Between one and five years | **97** | 113 | 97 | **97** | 113 | 97 |
| Over five years | **95** | 106 | 93 | **95** | 106 | 93 |
| **Total lease commitments** | **213** | 239 | 232 | **213** | 239 | 232 |
| **Contingent liabilities** | | | | | | |
| Direct credit substitutes | **54** | 53 | 52 | **54** | 53 | 52 |
| Transaction related contingent items | **277** | 281 | 281 | **277** | 281 | 281 |
| Short-term, self liquidating trade related contingent liabilities | **734** | 708 | 788 | **734** | 708 | 788 |
| **Total contingent liabilities** | **1,065** | 1,042 | 1,121 | **1,065** | 1,042 | 1,121 |

### Other contingent liabilities

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

The New Zealand Commerce Commission's proceedings against the Bank and The Warehouse Financial Services Limited (a member of the Banking Group) are ongoing. Visa International, Cards NZ Limited, MasterCard International and all New Zealand issuers of Visa and MasterCard credit cards are also defendants. The proceedings allege that the setting of interchange fees and rules (relating to honour all cards, no surcharge, access and no discrimination) amount to price fixing or alternatively have the effect of substantially lessening competition in the New Zealand market in breach of the Commerce Act 1986. The proceedings seek to declare the conduct illegal and impose unspecified monetary penalties. In addition, similar proceedings issued by a number of New Zealand retailers against the same defendants are also ongoing. These proceedings also seek to declare the conduct illegal and an enquiry into damages. Damages awarded, if any, would be in addition to any penalties imposed under the Commerce Act 1986 in the event the Commerce Commission is successful in the proceedings described above. Both proceedings are being defended. The extent of any possible liability cannot be reliably calculated and accordingly no provision has been made. The proceedings are scheduled for hearing in October 2009.

The New Zealand Inland Revenue Department ('**NZIRD**') has reviewed a number of structured finance transactions undertaken by the NZ Branch and a number of subsidiaries of the Ultimate Parent Bank in New Zealand. The review included transactions in which The Home Mortgage Company Limited and Westpac (NZ) Investments Limited, members of the Banking Group, participated. Liability for tax reassessment, if any, arising from the review will rest with the Ultimate Parent Bank.

The Bank leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the Bank upon vacation of all leased premises subject to these provisions as at 31 March 2009 was estimated to be $22 million (31 March 2008: $21 million, 30 September 2008: $21 million). The Bank believes it is highly unlikely that it would incur a material operating loss as a result of this in the normal course of its business operations.

### Other commitments

As at 31 March 2009, the Banking Group had commitments in respect of interest swap transactions, provision of credit, underwriting facilities and other engagements entered into in the normal course of business. The Banking Group has management systems and operational controls in place to manage interest rate risk. Please refer to Note 39, 50 and 51. Accordingly, it is not envisaged that any liability resulting in material loss to the Banking Group will arise from these transactions.

## Note 33 Segment information

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

The basis of segment reporting reflects the management of the business within the Banking Group. Management consider the Banking Group to operate in one business segment, Retail Banking. The Retail Banking segment is responsible for servicing and product development for consumer and smaller to medium-sized business banking customers within New Zealand, and includes the corporate head office functions and funding activities that exist within New Zealand.

## Note 34 Superannuation commitments

The Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the Banking Group as required. An actuarial valuation of the scheme is undertaken periodically, with the last full valuation being undertaken as at 30 June 2008. Contributions to the defined benefit fund within the scheme are at a rate sufficient to keep the scheme solvent, and based on actuarial assessments.

The Banking Group's defined benefit superannuation scheme provides lump sum and superannuation benefits. The Banking Group's contributions for the six months ended 31 March 2009 were $4 million (31 March 2008: nil, 30 September 2008: $1 million).

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

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

| | **The Banking Group and The Bank** | | |
|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| Present value of wholly unfunded obligations | **104** | 109 | 117 |
| Fair value of plan assets | **(65)** | (86) | (74) |
| **Present value of net obligations** | **39** | 23 | 43 |
| **Net liability recognised in the balance sheet** | **39** | 23 | 43 |
| Represented by the following amount in the balance sheet: | | | |
| Liabilities | **39** | 23 | 43 |
| **Net liability recognised in the balance sheet** | **39** | 23 | 43 |

The fair value of plan assets as at 31 March 2009 included 90-day bank bills issued by, and cash balances held with the Banking Group with a fair value of $7 million (31 March 2008: $15 million, 30 September 2008: $7 million).

| | **The Banking Group and The Bank** | | |
|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Movements in the net liabilities recognised in the balance sheet** | | | |
| Net liabilities at beginning of the period/year | **43** | 11 | 11 |
| Net expense recognised in the income statement | **(1)** | - | - |
| Contributions paid | **(4)** | - | (1) |
| Actuarial gains recognised directly in retained earnings | **1** | 12 | 33 |
| **Net liabilities recognised at end of the period/year** | **39** | 23 | 43 |
| Return on plan assets: | | | |
| Expected return on plan assets | **2** | 3 | 6 |
| Actuarial losses on plan assets | **(11)** | (13) | (23) |
| Actual return on plan assets | **(9)** | (10) | (17) |

# Note 34 Superannuation commitments (continued)

## Expense recognised in the income statement

The amounts recognised in salaries and other staff expenses in the income statement as operating expenses for the six months ended 31 March 2009 in respect of the defined benefit superannuation scheme were as follows:

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Audited $m |
| Current service cost | **1** | 1 | 1 |
| Interest cost | **2** | 2 | 5 |
| Expected return on plan assets | **(2)** | (3) | (6) |
| Curtailments/settlements | **-** | - | - |
| **Net defined benefit expense** | **1** | - | - |

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

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | **31 March 2009 Unaudited %** | 31 March 2008 Unaudited % | 30 September 2008 Audited % |
| Discount rate at beginning of the period/year | **4.0** | 4.5 | 4.0 |
| Expected rate of return on plan assets at beginning of the period/year | **6.0** | 6.1 | 6.2 |
| Future salary increases | **2.0** | 3.5 | 3.5 |
| Other material actuarial assumptions – pension increases | **2.0** | 2.5 | 2.5 |

# Note 35 Key management disclosures

## Key management compensation

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

| | The Banking Group and The Bank | | |
|---|---|---|---|
| | **Six Months Ended 31 March 2009 Unaudited $'000** | Six Months Ended 31 March 2008 Unaudited $'000 | Year Ended 30 September 2008 Audited $'000 |
| Salaries and other short-term benefits | **4,641** | 5,225 | 7,314 |
| Post-employment benefits | **422** | 340 | 505 |
| Other termination benefits | **-** | 150 | 150 |
| Share-based payment | **751** | 420 | 839 |
| **Total key management compensation** | **5,814** | 6,135 | 8,808 |

The Directors have received remuneration from the Banking Group. This is included in the table above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2008 Annual Financial Report.

## Loans and deposits with key management personnel

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

As at 31 March 2009, no provisions have been recognised in respect of loans given to key management and their related parties (31 March 2008: nil, 30 September 2008: nil).

## Other related party transactions

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

## Share-based payments

Selected executives and senior managers of the Bank participate in the Ultimate Parent Bank's equity settled share-based compensation plans which are the Westpac Reward Plan ('**WRP**') and the Westpac Performance Plan ('**WPP**'). The Bank compensates the Ultimate Parent Bank for the equity granted to employees.

## Note 35 Key management disclosures (continued)

### *(i) Westpac Reward Plan*

The WRP was approved by shareholders at the Ultimate Parent Bank's 2006 Annual General Meeting. It provides the Ultimate Parent Bank with a mechanism for driving superior long-term performance from the most senior management in Australia, New Zealand and other countries.

During 2008 senior managers were invited to receive an award of performance options under the WRP, with an exercise price based on the prevailing market price of Ultimate Parent Bank's ordinary shares at commencement of the performance period. The options may vest over a three to five-year period from the commencement of the performance period, provided a performance hurdle of relative Total Shareholder Return ('**TSR**')[1] is met or exceeded by the Ultimate Parent Bank. The comparator group for TSR focuses on 10 Australian financial sector peers. Full vesting of performance options occurs when the Ultimate Parent Bank's TSR is at (or exceeds) the 75th percentile relative to the comparator group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance, no vesting occurs.

The WRP vesting framework has been designed to strengthen the performance link over the longer term. Initial TSR performance is tested at the third anniversary of the commencement of the performance period, with subsequent performance testing possible at the fourth and fifth anniversaries of commencement of the performance period. Securities vest only if Ultimate Parent Bank's TSR ranking is at or above the median of the peer group at a performance test date. TSR performance is tested at subsequent performance test dates (where they exist) and further vesting may occur only if the TSR ranking has improved. The model encourages executives to focus on performance over the full five-year period.

Performance options will lapse where an employee leaves the Ultimate Parent Bank Group before the securities vest due to resignation or dismissal, unless the Board determines otherwise.

Upon exercising vested performance options and paying the exercise price, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. A performance option lapses if it is not exercised prior to the end of its term.

The following table summarises grants of performance options to employees of the Bank under the WRP in the current and comparative reporting periods:

### *WRP Performance Options*

| Grant date | Latest date for exercise | First test date | Number of options | Exercise price A$ | Fair value at grant date A$ | Outstanding number of options as at 31 March 2009 |
|---|---|---|---|---|---|---|
| 19 December 2008 | 1 October 2017 | 1 October 2010 | 103,527 | 23.40 | 4.89 | 103,527 |
| 17 December 2007 | 17 December 2017 | 17 December 2010 | 179,613 | 30.10 | 3.61 | 179,613 |

### *(ii) Westpac Performance Plan*

For employees based in New Zealand the WPP is currently used to provide long-term incentive awards or as a mechanism for the mandatory deferral of a portion of their short-term incentive in the form of share rights. These share rights are restricted for a period of two to three years, and vest subject to service conditions. Vested share rights can then be exercised to receive the underlying fully paid ordinary shares in the Ultimate Parent Bank. The exercise price for share rights is nil.

For New Zealand employees, performance options with a three to five year vesting period were granted under the WPP until December 2006, and these continue to run their course. The exercise price for the performance options was set at the time of invitation based on a five-day weighted average price of the ordinary share of the Ultimate Parent Bank.

Awards of options or share rights under the WPP have a life of up to ten years from the grant date. A share right or an option lapses if it is not exercised prior to the end of its life.

*Performance options and performance share rights*

Performance options and performance share rights granted under the WPP from 20 January 2003 to 15 December 2006 vest after a period of two to five years, but only if the performance hurdle has been met. The performance hurdle compares the Ultimate Parent Bank's TSR against the TSR of a defined ranking group of other companies.

For grants made up to November 2005, the ranking group is the 50 largest companies listed on the ASX by market capitalisation at the commencement of the performance period (excluding the Ultimate Parent Bank, property and investment trusts and certain specified resources companies).

For grants made after November 2005, 50% of the award is assessed against a TSR ranking group of the top 10 of the largest 13 Australian banking and financial sector companies by market capitalisation at the time of grant (excluding the Ultimate Parent Bank). The other 50% assesses TSR performance against a ranking group of the 50 largest companies on the ASX by market capitalisation at the time of grant (excluding the Ultimate Parent Bank, specified resource companies and the first ranking group).

Full vesting of performance options and performance share rights occurs when the Ultimate Parent Bank's relative TSR is at (or exceeds) the 75th percentile of the ranking group, scaling down to 50% vesting on a straight-line basis for median performance. In the event of below median performance, no vesting occurs.

Upon exercising vested performance options or performance share rights, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time.

1 TSR measures a company's share price movement and accumulated dividend yields over a specific measurement period (i.e. the change in value of an investment in that company's shares) and excluding tax effects.

# Note 35 Key management disclosures (continued)

*Unhurdled share rights*

The WPP is also used for key employees based outside Australia and the United States of America, who in 2008 received unhurdled share rights, which vest after a set period of two to three years service with the Ultimate Parent Bank. After the restriction period applying to them has passed, vested unhurdled share rights can be exercised to receive the underlying fully paid ordinary shares. The exercise price for share rights is nil.

The following tables summarise grants of hurdled options and hurdled and unhurdled share rights to employees of the Bank under the WPP in the current and comparative reporting periods:

***Share rights***

| Grant date | Latest date for exercise | Expected vesting date | Number of share rights | Exercise price A$ | Fair value at grant date A$ | Outstanding number of share rights as at 31 March 2009 |
|---|---|---|---|---|---|---|
| **Unhurdled** | | | | | | |
| 19 December 2008 | 1 October 2018 | 1 October 2010 | 29,247 | nil | 19.55 | 29,247 |
| 19 December 2008 | 1 October 2018 | 1 October 2011 | 115,179 | nil | 20.76 | 115,179 |
| 17 December 2007 | 17 December 2017 | 17 December 2009 | 14,193 | nil | 25.60 | 11,073 |
| 17 December 2007 | 17 December 2017 | 17 December 2010 | 112,141 | nil | 24.35 | 103,891 |
| 15 December 2006 | 15 December 2016 | 15 December 2009 | 141,850 | nil | 20.60 | 92,626 |
| **Hurdled** | | | | | | |
| 15 December 2006 | 15 December 2016 | 15 December 2008 | 31,055 | nil | 13.74 | 6,360 |
| 15 December 2006 | 15 December 2016 | 15 December 2008 | 29,183 | nil | 13.54 | 6,639 |

***Options***

No performance options were granted under the WPP during from 1 October 2008 to 31 March 2009.

| Grant date | Latest date for exercise | Expected vesting date | Number of options | Exercise price A$ | Fair value at grant date A$ | Outstanding number of options as at 31 March 2009 |
|---|---|---|---|---|---|---|
| 15 December 2006 | 15 December 2016 | 15 December 2009 | 143,500 | 23.98 | 2.74 | 30,555 |
| 15 December 2006 | 15 December 2016 | 15 December 2009 | 137,979 | 23.98 | 2.68 | 28,340 |

***Fair value at grant date***

The above fair value of options and share rights granted on 19 December 2008 are preliminary estimates based on the remuneration value used to determine the number of instruments granted. In line with the Ultimate Parent Bank's normal practice, valuations in accordance with NZ IFRS 2 *Share-based Payments* will be performed in the second half of the year. In prior years, the fair value was calculated using a Binomial/ Monte Carlo simulation pricing model using the following assumptions:

- The assumptions included in the valuation of the 17 December 2007 awards of performance options under the WRP include a risk-free interest rate of 6.26%, a dividend yield on the Ultimate Parent Bank's shares of 5% and volatility in the Ultimate Parent Bank's share price of 18%.
- The assumptions included in the valuation of the awards of unhurdled share rights under the WPP include a risk-free interest rate ranging from 6.65% to 6.71%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and volatility in the Ultimate Parent Bank's share price of 18%.
- Volatility has been assessed by considering the implied volatility of publicly traded options over the Ultimate Parent Bank's ordinary shares and the historic volatility of the market price of the Ultimate Parent Bank's shares.
- Other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and the Ultimate Parent Bank's, which are used to assess the impact of performance hurdles.
- Options and share rights have been valued assuming an expected life after the vesting date of up to one year.

# Note 36 Securitisation, funds management and other fiduciary activities

## Securitisation

As at 31 March 2009, the Bank and the Banking Group had securitised assets amounting to $573 million (31 March 2008: $677 million, 30 September 2008: $596 million), all having been sold by the Bank and the Banking Group to the Westpac Home Loan Trust ('**HLT**') and the Westpac Mortgage Investment Fund ('**MIF**') via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. Refer to Westpac Banking Corporation's General Disclosure Statement for the six months ended 31 March 2009 (Note 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products) for further information. The Bank and the Banking Group receives fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the years in which the costs are borne.

## Note 36 Securitisation, funds management and other fiduciary activities (continued)

In addition, the Bank executed a $5.0 billion internal mortgage backed securitisation in October 2008, which increased to $7.5 billion in December 2008. These securities are available for external issuance and the most senior rated securities ($7.25 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank of New Zealand. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions remain difficult. It takes advantage of the Reserve Bank of New Zealand's recently expanded guidelines for its open market operations, which allow banks in New Zealand to offer securitised residential mortgage assets from their own balance sheets as collateral for the Reserve Bank of New Zealand's repurchase agreements.

### Funds management and other fiduciary activities

The Bank markets the products of BT Funds Management (NZ) Limited, a member of the Ultimate Parent Bank Group, through its branch, advisory network and private bank. The Bank derives distribution fees from the sale of managed fund products, superannuation and unit trusts marketed on behalf of BT Funds Management (NZ) Limited. The Bank also provides investment advice to a number of clients, which includes the provision of other fiduciary activities.

### Marketing and distribution of insurance products

The Bank markets and distributes both life and general insurance products. The life insurance products are underwritten by Westpac Life - NZ - Limited (a member of the Ultimate Parent Bank Group). The general insurance products are underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

### Involvement with other fiduciary activities

During the six months ended 31 March 2009:

- financial services provided by any member of the Banking Group to entities which conduct the securitisation, funds management and other fiduciary activities described above, or on whose behalf insurance products are marketed or distributed, have been provided on arm's length terms and conditions and at fair value; and
- assets purchased from entities which conduct the securitisation, funds management and other fiduciary activities specified above, or on whose behalf insurance products are marketed or distributed, have been purchased on arm's length terms and conditions and at fair value.

### Peak aggregate funding provided to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities or insurance product marketing and distribution activities described in this note during the six months ended 31 March 2009 (31 March 2008: nil, 30 September 2008: nil).

The Banking Group did provide funding to WNZSL, a member of the Banking Group involved in securitisation activities. This funding was provided on an intraday basis to facilitate the purchase of mortgages from the Bank in order to establish mortgage-backed securities under the internal mortgage-backed securitisation described above. As noted above, this was completed in two tranches, $5.0 billion and $2.5 billion. At all times during the quarter the end-of-day balance of funding provided was nil. The peak end-of-day aggregate amount of funding provided to WNZSL (which is also the peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above), during the three months ended 31 March 2009, was nil (31 March 2008: nil, 30 September 2008: nil), and the peak end-of-day aggregate amount of funding provided to WNZSL expressed as percentage of the amount of WNZSL's assets was 0% (31 March 2008: 0%, 30 September 2008: 0%). The peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above expressed as percentage of the Banking Group's Tier One Capital was 0% (31 March 2008: 0%, 30 September 2008: 0%).

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the relevant three month period and then dividing that amount by the amount of WNZSL's assets or the Banking Group's Tier One Capital (as the case required) as at the end of the quarter.

### Risk management

The Ultimate Parent Bank Group has in place policies and procedures to ensure that difficulties arising from the activities identified above will not impact adversely on the Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures will minimise the possibility that those conditions would impact adversely on the Ultimate Parent Bank Group.

## Note 37 Insurance business

The Banking Group does not conduct any insurance business (as that term is defined in the Order).

## Note 38 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the document 'Capital adequacy framework (internal models based approach)' (BS2B) issued by the Reserve Bank of New Zealand.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Reserve Bank of New Zealand in supervising the Banking Group.

During the preceding six months, the Banking Group had complied in full with all its externally imposed capital requirements.

# Note 38 Capital adequacy (continued)

## Capital management

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group complies with externally imposed capital requirements and that the Banking Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Banking Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Three independent processes ensure that the Banking Group's capital is adequate to support its current and future activities:

1. The Banking Group's Board has approved a risk appetite statement. This statement outlines the target debt rating, the target capital ratios, and the degree of earnings volatility that is acceptable. The table below outlines the current target ratios.

| | % |
|---|---|
| **Current target capital structure** | |
| Minimum tier one ratio | **6.0** |
| Minimum total regulatory ratio | **9.0** |

2. The Banking Group calculates the capital that is required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios. The Banking Group has no appetite for breaching the lower limits of its target ranges.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('**BSR**'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements made.

## Summary of internal capital adequacy assessment process

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring that it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank of New Zealand document 'Prudential standard' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks. The Banking Group's ICAAP is founded on the core principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The connection between these two concepts is provided by economic capital, which the Ultimate Parent Bank Group believes to be the best single measure of overall risk profile. The economic capital requirement is calibrated to the Banking Group's target senior debt rating which is one of the key parameters defined in the risk appetite statement. In addition to the economic capital based principles outlined above, the ICAAP also takes account of stress testing, prudential minimum capital ratios, thin capitalisation requirements and peer group comparatives.

## Internal capital for other material risk

| | **The Banking Group** | |
|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m |
| **Internal capital allocation** | | |
| Other material risk | **366** | 335 |

Other material risk is a combination of business risk and liquidity risk. These risks are defined below.

### *Business risk*

Business risk reflects the risk associated with the vulnerability of a line of business to changes in the business environment.

### *Liquidity risk*

Liquidity risk is the risk that the bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.

## Note 38 Capital adequacy (continued)

### Basel II

The new global capital adequacy regime, known as Basel II, represents a major step in the evolution of risk and capital management and in prudential supervision of banking systems. The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for new minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Schedule 5B, Clause 14 of the Order and represents capital adequacy calculation based on capital adequacy framework (internal models based approach) (BS2B).

| | The Banking Group | |
|---|---|---|
| | **31 March 2009 Unaudited %** | 31 March 2008 Unaudited % |
| **Capital adequacy ratios** | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **9.3** | 7.0 |
| Total capital expressed as a percentage of risk-weighted exposures | **12.1** | 10.0 |
| **Reserve Bank of New Zealand minimum ratios:** | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **6.0** | 4.0 |
| Total capital expressed as a percentage of risk-weighted exposures | **8.0** | 8.0 |

### Basel I

The table below is disclosed in accordance with Schedule 5B, Clause 15 of the Order and represents capital adequacy calculation based on the Basel I Capital adequacy framework.

For the purposes of calculating the capital adequacy ratios for the Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue Department and trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

| | The Banking Group | | The Bank | |
|---|---|---|---|---|
| | **31 March 2009 Unaudited %** | 31 March 2008 Unaudited % | **31 March 2009 Unaudited %** | 31 March 2008 Unaudited % |
| **Capital adequacy ratios** | | | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **8.7** | 6.5 | **6.7** | 6.3 |
| Total capital expressed as a percentage of risk-weighted exposures | **11.5** | 9.4 | **9.0** | 9.2 |
| **Reserve Bank of New Zealand minimum ratios:** | | | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **N/A** | N/A | **N/A** | N/A |
| Total capital expressed as a percentage of risk-weighted exposures | **N/A** | N/A | **N/A** | N/A |
| Total risk-weighted exposures ($m) | **35,397** | 34,104 | **43,361** | 33,948 |

# Note 38 Capital adequacy (continued)

## The Banking Group capital summary

| | The Banking Group | |
|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m |
| **Tier One Capital** | | |
| Paid up share capital | **3,470** | 2,500 |
| Revenue and similar reserves[1] | **12** | 33 |
| Current period's retained profits | **160** | 299 |
| Minority interests | **6** | 5 |
| ***Less deductions from Tier One Capital*** | | |
| Goodwill | **(477)** | (477) |
| Other intangible assets | **(95)** | (118) |
| Cash flow hedge reserve | **27** | (16) |
| Expected loss excess over eligible allowance | **(57)** | (65) |
| **Total Tier One Capital** | **3,046** | 2,161 |
| **Tier Two Capital – Upper Tier Two Capital** | | |
| Perpetual subordinated notes | **970** | 970 |
| Current period's unaudited retained profits | **-** | - |
| ***Less deductions from Tier Two Capital*** | | |
| Expected loss excess over eligible allowance | **(57)** | (65) |
| **Tier Two Capital – Lower Tier Two Capital** | **-** | - |
| **Total Tier Two Capital** | **913** | 905 |
| **Total Tier One Capital plus Tier Two Capital** | **3,959** | 3,066 |

1 Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities reserve and prior periods' retained profits.

## The Banking Group total capital requirement

| | **Six months ended 31 March 2009** | | | Six months ended 31 March 2008 | | |
|---|---|---|---|---|---|---|
| | **Total Exposure After Credit Risk Mitigation Unaudited $m** | **Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited $m** | **Total Capital Requirement Unaudited $m** | Total Exposure After Credit Risk Mitigation Unaudited $m | Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited $m | Total Capital Requirement Unaudited $m |
| Total credit risk | **62,443** | **27,667** | **2,213** | 59,328 | 24,832 | 1,987 |
| Operational risk | **N/A** | **2,440** | **195** | N/A | 2,023 | 162 |
| Market risk | **N/A** | **939** | **75** | N/A | 713 | 57 |
| Supervisory adjustment | **N/A** | **1,544** | **124** | N/A | 3,127 | 250 |
| **Total** | | **32,590** | **2,607** | | 30,695 | 2,456 |

The supervisory adjustment comprises the 15% scalar applied to mortgages and an adjustment to bring risk-weighted assets to 90% of adjusted Basel I capital, as per the Bank's conditions of registration.

## Ultimate Parent Bank Group capital adequacy ratios

### *Basel II*

| | **31 March 2009 Unaudited %** | 31 March 2008 Unaudited % |
|---|---|---|
| **Ultimate Parent Bank Group[1]** | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **8.4** | 7.4 |
| Total capital expressed as a percentage of risk-weighted exposures | **11.4** | 10.1 |
| **Ultimate Parent Bank (Extended Licensed Entity)[1,2]** | | |
| Tier One Capital expressed as a percentage of risk-weighted exposures | **10.5** | N/A |
| Total capital expressed as a percentage of risk-weighted exposures | **13.4** | N/A |

1 The capital ratios represent information mandated by APRA.

2 The capital ratios of Ultimate Parent Bank (Extended Licensed Entity) were not made publicly available for the 31 March 2008 reporting period.

## Note 38 Capital adequacy (continued)

Basel II came into force on January 2008. The Ultimate Parent Bank Group received accreditation from APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') and Advanced Measurement Approaches ('**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 methodology. Under New Zealand regulations, this methodology is referred to as Basel II (internal models based) approach. With this accreditation, the Ultimate Parent Bank 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 Ultimate Parent Bank website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of these processes.

The Ultimate Parent Bank Group, and the Ultimate Parent Bank (Extended Licensed Entity) (as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2009. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Banking Group, which is not made publicly available.

## Note 39 Risk management overview

The Banking Group regards the management of risk to be a fundamental management activity, performed at all levels of its business. Supporting this approach is a risk management framework that includes core risk principles as well as policies and processes for measuring and monitoring risk ('**Risk Management Framework**').

### The Risk Management Framework and governance

The Board is responsible for determining the Bank's appetite for risk and reviewing the Risk Management Framework, including reviewing the Bank's financial statements and the Bank's internal and external audit processes.

The Bank is ultimately a subsidiary of the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank and its subsidiaries. Accordingly, the Banking Group's Risk Management Framework is closely aligned with the Ultimate Parent Bank's Risk Framework ('**Group Risk Framework**').

The Board applies the Group Risk Framework and may supplement or enhance the Group Risk Framework if it considers it appropriate to do so. The Board is supported by the New Zealand Board Audit Committee ('**NZBAC**') and the New Zealand Board Risk Management Committee ('**NZBRC**'), which are subcommittees of the Board responsible for monitoring risk management performance and controls across the Banking Group.

The NZBAC comprises five Directors of the Bank (three non-independent and two independent). The NZBAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, the activities of the Banking Group's auditors and monitors the relationship between management and the external auditors.

The NZBRC comprises all of the non-executive Directors of the Board. The NZBRC has power delegated by the Board to set risk appetites, approve frameworks, policies and processes for the management of risk that enhance those of the Ultimate Parent Bank, if required, and to accept risks beyond the approval discretion provided to management.

### The Bank's Risk Management Framework and governance

The Bank's Risk Management Framework consists of the policies, procedures, systems, processes, data, roles and responsibilities and controls that manage the application and governance of risk and support the risk appetite determinations of the Board.

Governance is an essential element in achieving effective oversight and management of the Bank's risk. Effectively managing the risks inherent in the business is a key strategy of the Bank as well as providing support for the Bank's reputation, performance and future success. This Risk Management Framework is approved by the Board and implemented through the Bank's Chief Executive Officer ('**CEO**') and the executive management team, further supported by the New Zealand Risk Committee ('**NZRC**'), which overviews all risk in the New Zealand operation.

Implementation is achieved through developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

# Note 39 Risk management overview (continued)

## Risk appetite and risk types

The Ultimate Parent Bank Group's core risk appetite is influenced by a range of factors, including whether a risk is considered consistent with its strategy (core risk) and whether an appropriate return can be achieved from taking that risk. The Bank maintains a risk reward oriented approach to creating shareholder value utilising a measurement framework covering all material risks classes. The Bank distinguishes between different risk types, and takes an integrated approach to managing them. These key risks are:

- Liquidity risk: is the risk that the Bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.
- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations.
- Market risk: the risk to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
- Operational risk: the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk – the risk of legal or regulatory sanction, financial or reputation loss arising from the Banking Group's failure to apply the regulatory standards expected of the Banking Group as a financial services group.
- Other risks:
  - Equity risk – the potential for financial loss arising from movements in the value of the Bank's direct and indirect equity investments.
  - Model risk – the risk of financial, reputational or operational losses arising because of an error of fact or assumption within a model.
  - Reputational risk – the risk to earnings or capital arising from negative public opinion, resulting from the loss of reputation or public trust and standing.
  - Business risk – the risk associated with the vulnerability of a line of business to changes in the business environment.
  - Contagion risk – the risk that problems arising in other Ultimate Parent Bank Group members compromise the financial and operational position of the ADIs in the Ultimate Parent Bank Group.

The following principles are applied to these risks:

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

## Management assurance programme

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

This programme allows senior management to affirm their satisfaction with the quality of the processes under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management to the General Manager Risk Management. The results of this process are reported to the New Zealand Operational Risk & Compliance Committee ('**NZOPCO**'). The CEO provides management assurance to the Ultimate Parent Bank Board Risk Management Committee ('**BRMC**'), the Ultimate Parent Bank Board Audit Committee ('**BAC**') and the CEO of the Ultimate Parent Bank.

This system of management assurance assists the Ultimate Parent Bank's Board in satisfying itself that the Banking Group's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

## Independent control units

The Banking Group has an independent internal audit unit ('**Group Audit NZ**') which reports to the Board Audit Committee, as well as to the Ultimate Parent Bank.

Group Audit NZ, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the Banking Group's activities, records, property and employees. The scope of responsibility of the internal audit unit covers systems of management control across all business activities and support functions at all levels of management within the Banking Group. The level of operational risk determines the scope and frequency of individual audits. The Head of Group Audit NZ reports for functional purposes to the Bank's Board Audit Committee and to the General Manager Group Assurance and for administrative purposes to the Chief Financial Officer NZ, a member of the Banking Group's Executive Team.

# Note 40 Compliance and operational risk

## Compliance risk

The Bank is subject to regulation and regulatory oversight. Any significant regulatory developments could have an adverse effect on how business is conducted and on results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Bank's control.

Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

The Bank has a dedicated Operational Risk and Compliance function.

NZOPCO meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. The committee monitors the business unit operational risk profiles and the action plans, and is required to escalate material matters to the Board, Group Operational Risk and Compliance Committee ('**OPCO**') and the BRMC, where material.

## Operational risk

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

The Bank uses the Ultimate Parent Bank Group Operational Risk Management Framework as a tool to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management and reporting & monitoring.

The calculation of operational risk capital is designed to estimate the amount of capital required to withstand losses from extreme unexpected operational risk events in future years. The Banking Group adopts a hybrid approach, relying on a variety of data sources that combines actual loss experience with estimates of potential future losses based on expert business judgement.

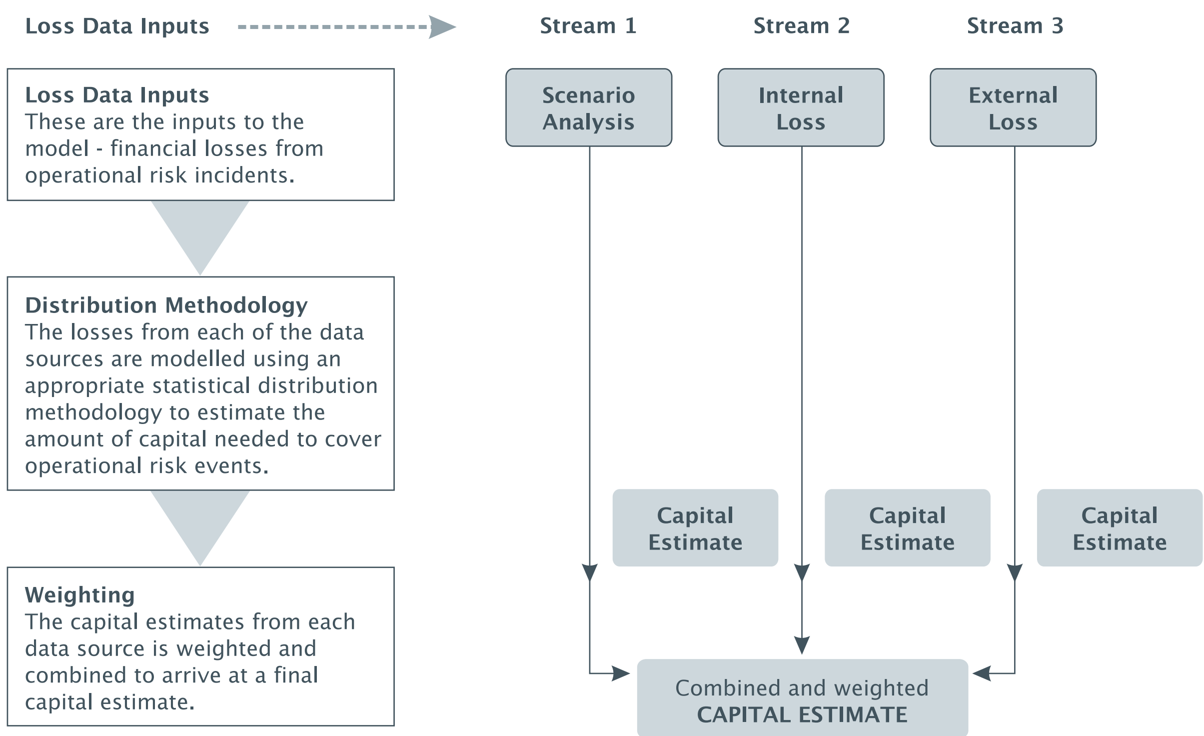
The Operational Risk Capital Model ('**ORCM**') has been developed to provide a reliable, reasonable and conservative estimate of the capital to be held by the Banking Group's regulated entities. It includes capital for both expected and unexpected losses arising from operational risk events.

The Banking Group undertakes three streams of analysis. Each stream utilises different data sets to generate an estimate of potential financial loss. The three capital estimates are then weighted and combined to produce an estimate of capital. Three streams are used to provide a more comprehensive assessment of possible operational risks by:

- providing losses previously experienced by the Banking Group;
- utilising loss history from peers with similar business models and hence give an indication of what future losses are possible; and
- covering both smaller/frequent losses and larger/infrequent losses via scenario analysis.

## Calculating operational risk capital

The diagram below provides an overview of the process for calculating capital:



## Note 40 Compliance and operational risk (continued)

The calculation of operational risk capital does not currently make any adjustment or deduction for risks that may be covered by insurance or any expected losses that are the subject of financial provisions.

Regulatory capital is calculated quarterly. The ORCM is reviewed annually to re-assess the appropriateness of the model framework, the model methodology, the assumptions and the parameters used in the model in light of industry developments, advancements in modelling techniques and changes in the broader Operational Risk Management Framework.

**The Banking Group's operational risk capital requirement for the:**

| | **Six months ended 31 March 2009** | | Six months ended 31 March 2008 | |
|---|---|---|---|---|
| | **Implied Risk-weighted Exposure Unaudited $m** | **Total Operational Risk Capital Requirement Unaudited $m** | Implied Risk-weighted Exposure Unaudited $m | Total Operational Risk Capital Requirement Unaudited $m |
| **Approach implemented** | | | | |
| **Advanced measurement approach** | | | | |
| Operational risk | **2,440** | **195** | 2,023 | 162 |

### Reviews in respect of risk management systems

Group Assurance NZ participates quarterly in the management assurance programme in order to assess the adequacy of the governance framework supporting operational risk management.

The Ultimate Parent Bank Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit decision-making relating to products provided by the Bank. Group Assurance NZ also periodically reviews the Bank's Operational Risk Framework.

The reviews discussed in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank.

## Note 41 Funding and liquidity risk

Liquidity risk is the risk that the Bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses. This risk is managed through the NZBRC approved liquidity framework.

Responsibility for liquidity management is delegated to the Ultimate Parent Bank's Group Treasury unit ('**Group Treasury**'), under oversight of the Ultimate Parent Bank's Market Risk Committee ('**MARCO**'). Group Treasury manages liquidity on a daily basis and submits monthly reports to the Ultimate Parent Bank's Banking Book Risk Committee ('**BBRC**') and MARCO with quarterly reports to the NZBRC and the BRMC. Group Treasury is also responsible for monitoring the Banking Group's funding base and ensuring that it is prudently maintained and adequately diversified.

Key aspects of the liquidity management strategy are as follows:

### Daily liquidity modelling and reporting

The Bank's liquidity position is modelled and reported on a daily basis covering:

- the level of liquids assets held;
- going concern scenario; and
- crisis funding scenario.

These reports are circulated daily to senior Treasury and Market Risk personnel. They are also reported monthly to the Reserve Bank of New Zealand, the BBRC and MARCO as well as quarterly to the NZBRC, Group Risk Reward Committee ('**GRRC**') and BRMC.

### Annual liquidity risk framework review

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

- modelling approach;
- scenarios covered;
- limit determination; and
- minimum holdings of liquid assets.

The Bank's liquidity framework is reviewed annually by the NZBRC.

## Note 41 Funding and liquidity risk (continued)

### Annual funding plan

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

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

The Bank's annual funding plan is reviewed by the NZBRC.

### Contingency planning

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

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

### Sources of liquidity

The principal sources of liquidity for the Bank are:

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

### Liquidity analysis

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. When managing interest rate and liquidity risks, the Banking Group adjusts this contractual profile for expected customer behaviour.

## Note 41 Funding and liquidity risk (continued)

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 320 | - | - | - | - | - | 320 |
| Due from other financial institutions | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 26 | - | - | - | - | - | 26 |
| Other trading securities | 4,652 | - | - | - | - | - | 4,652 |
| Available-for-sale securities | - | - | - | - | 38 | - | 38 |
| Loans | 1,865 | 1,608 | 3,528 | 1,866 | 7,665 | 86,819 | 103,351 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 453 | - | - | - | - | - | 453 |
| Investment in associate | - | - | - | - | 48 | - | 48 |
| Other financial assets | - | 157 | - | - | - | - | 157 |
| **Total undiscounted financial assets** | 7,319 | 1,765 | 3,528 | 1,866 | 7,751 | 86,819 | 109,048 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 4,069 | - | - | - | - | - | 4,069 |
| Deposits at amortised cost | 15,019 | 2,759 | 5,142 | 4,861 | 1,412 | 1 | 29,194 |
| Derivative financial instruments | - | - | - | - | - | - | - |
| Other trading liabilities at fair value | 2,297 | - | - | - | - | - | 2,297 |
| Debt issues | - | 2,532 | 4,398 | 3,121 | 1,823 | 49 | 11,923 |
| Other financial liabilities | - | 446 | - | - | - | - | 446 |
| Subordinated debentures | - | - | 10 | 31 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 1,324 | - | - | 66 | 48 | - | 1,438 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 306 | - | - | - | - | - | 306 |
| Held for hedging purposes (net settled) | - | 21 | 129 | 380 | 332 | (2) | 860 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | - | - | - | - | - | - |
| Cash inflow | - | - | - | - | - | - | - |
| **Total undiscounted financial liabilities** | 23,015 | 5,758 | 9,679 | 8,459 | 3,873 | 1,018 | 51,802 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,381 | - | - | - | - | - | 6,381 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,031 | - | - | - | - | - | 4,031 |
| **Total undiscounted contingent liabilities and commitments** | 10,412 | - | - | - | - | - | 10,412 |

## Note 41 Funding and liquidity risk (continued)

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 137 | - | - | - | - | - | 137 |
| Due from other financial institutions | 2 | - | - | - | - | - | 2 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 2 | - | - | - | - | - | 2 |
| Other trading securities | 1,356 | - | - | - | - | - | 1,356 |
| Available-for-sale securities | - | - | - | - | 30 | - | 30 |
| Loans | 2,183 | 1,238 | 3,449 | 1,974 | 8,104 | 86,116 | 103,064 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 1,094 | - | 29 | 88 | 1,757 | - | 2,968 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 39 | - | - | - | - | - | 39 |
| Held for hedging purposes (net settled) | - | 15 | 57 | 94 | (91) | - | 75 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | (13) | (15) | (59) | (2,627) | (986) | - | (3,700) |
| Cash inflow | 8 | 5 | 28 | 2,481 | 923 | - | 3,445 |
| Investment in associate | - | - | - | - | 48 | - | 48 |
| Other financial assets | - | 204 | - | - | - | - | 204 |
| **Total undiscounted financial assets** | 4,808 | 1,447 | 3,504 | 2,010 | 9,785 | 86,116 | 107,670 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 4,284 | - | - | - | - | - | 4,284 |
| Deposits at amortised cost | 9,167 | 5,493 | 4,851 | 6,152 | 2,626 | 1 | 28,290 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 8 | - | - | - | - | - | 8 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - |
| Debt issues | 7 | 3,656 | 1,213 | 4,028 | 2,848 | 58 | 11,810 |
| Other financial liabilities | - | 591 | - | - | - | - | 591 |
| Subordinated debentures | - | - | 24 | 70 | 334 | 970 | 1,398 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 916 | - | - | - | 48 | - | 964 |
| **Total undiscounted financial liabilities** | 14,382 | 9,740 | 6,088 | 10,250 | 5,856 | 1,029 | 47,345 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,192 | - | - | - | - | - | 5,192 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,579 | - | - | - | - | - | 4,579 |
| **Total undiscounted contingent liabilities and commitments** | 9,771 | - | - | - | - | - | 9,771 |

# Note 41 Funding and liquidity risk (continued)

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 September 2008 – Audited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 110 | - | - | - | - | - | 110 |
| Due from other financial institutions | 3 | - | - | - | - | - | 3 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 12 | - | - | - | - | - | 12 |
| Other trading securities | 1,973 | - | - | - | - | - | 1,973 |
| Available-for-sale securities | - | - | - | - | 35 | - | 35 |
| Loans | 1,876 | 1,352 | 3,730 | 2,040 | 8,064 | 92,957 | 110,019 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 990 | - | 30 | 88 | 1,698 | - | 2,806 |
| Investment in associate | - | - | - | - | 48 | - | 48 |
| Other financial assets | - | 184 | - | - | - | - | 184 |
| **Total undiscounted financial assets** | 4,964 | 1,536 | 3,760 | 2,128 | 9,845 | 92,957 | 115,190 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 4,163 | - | - | - | - | - | 4,163 |
| Deposits at amortised cost | 9,748 | 5,078 | 5,565 | 5,885 | 2,419 | 1 | 28,696 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - |
| Debt issues | 709 | 1,698 | 1,111 | 5,792 | 2,358 | 56 | 11,724 |
| Other financial liabilities | - | 696 | - | - | - | - | 696 |
| Subordinated debentures | - | - | 23 | 59 | 300 | 970 | 1,352 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 1,991 | - | - | 5 | 114 | - | 2,110 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | (159) | - | - | - | - | - | (159) |
| Held for hedging purposes (net settled) | - | (29) | (27) | 115 | 257 | - | 316 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | - | - | - | - | - | - |
| Cash inflow | - | - | - | - | - | - | - |
| **Total undiscounted financial liabilities** | 16,452 | 7,443 | 6,672 | 11,856 | 5,448 | 1,027 | 48,898 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,318 | - | - | - | - | - | 6,318 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,299 | - | - | - | - | - | 4,299 |
| **Total undiscounted contingent liabilities and commitments** | 10,617 | - | - | - | - | - | 10,617 |

## Note 41 Funding and liquidity risk (continued)

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 320 | - | - | - | - | - | 320 |
| Due from other financial institutions | - | - | - | - | - | - | - |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 26 | - | - | - | - | - | 26 |
| Other trading securities | 4,652 | - | - | - | - | - | 4,652 |
| Available-for-sale securities | - | - | - | - | 38 | - | 38 |
| Loans | 1,865 | 1,608 | 3,456 | 1,866 | 7,665 | 86,819 | 103,279 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 885 | - | - | - | - | 7,500 | 8,385 |
| Investments in related entities | - | - | - | - | - | 281 | 281 |
| Other financial assets | - | 154 | - | - | - | - | 154 |
| **Total undiscounted financial assets** | 7,748 | 1,762 | 3,456 | 1,866 | 7,703 | 94,600 | 117,135 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 4,069 | - | - | - | - | - | 4,069 |
| Deposits at amortised cost | 15,019 | 2,759 | 5,142 | 4,861 | 1,412 | 1 | 29,194 |
| Other trading liabilities at fair value | 2,297 | - | - | - | - | - | 2,297 |
| Debt issues | - | 20 | 129 | 359 | 1,512 | 54 | 2,074 |
| Other financial liabilities | - | 410 | - | - | - | - | 410 |
| Subordinated debentures | - | - | 10 | 31 | 258 | 970 | 1,269 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 1,840 | 2,511 | 4,269 | 2,823 | 311 | 7,500 | 19,254 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 306 | - | - | - | - | - | 306 |
| Held for hedging purposes (net settled) | - | 21 | 129 | 380 | 332 | (2) | 860 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | - | - | - | - | - | - |
| Cash inflow | - | - | - | - | - | - | - |
| **Total undiscounted financial liabilities** | 23,531 | 5,721 | 9,679 | 8,454 | 3,825 | 8,523 | 59,733 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,381 | - | - | - | - | - | 6,381 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,031 | - | - | - | - | - | 4,031 |
| **Total undiscounted contingent liabilities and commitments** | 10,412 | - | - | - | - | - | 10,412 |

## Note 41 Funding and liquidity risk (continued)

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 133 | - | - | - | - | - | 133 |
| Due from other financial institutions | - | - | - | - | - | - | - |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 2 | - | - | - | - | - | 2 |
| Other trading securities | 1,356 | - | - | - | - | - | 1,356 |
| Available-for-sale securities | - | - | - | - | 30 | - | 30 |
| Loans | 2,183 | 1,238 | 3,376 | 1,974 | 8,104 | 86,116 | 102,991 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 1,097 | - | 29 | 88 | 1,757 | - | 2,971 |
| Other financial assets | - | 203 | - | - | - | - | 203 |
| **Total undiscounted financial assets** | 4,771 | 1,441 | 3,405 | 2,062 | 9,891 | 86,116 | 107,686 |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | - | - | - | - | - | - | - |
| Deposits at fair value | 4,284 | - | - | - | - | - | 4,284 |
| Deposits at amortised cost | 9,167 | 5,493 | 4,851 | 6,152 | 2,626 | 1 | 28,290 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 8 | - | - | - | - | - | 8 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - |
| Debt issues | - | 2 | 19 | 35 | 772 | 58 | 886 |
| Other financial liabilities | - | 498 | - | - | - | - | 498 |
| Subordinated debentures | - | - | 24 | 70 | 334 | 970 | 1,398 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 962 | 3,654 | 1,194 | 3,993 | 2,076 | - | 11,879 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | (39) | - | - | - | - | - | (39) |
| Held for hedging purposes (net settled) | - | (15) | (57) | (94) | 91 | - | (75) |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | 13 | 15 | 59 | 2,627 | 986 | - | 3,700 |
| Cash inflow | (8) | (5) | (28) | (2,481) | (923) | - | (3,445) |
| **Total undiscounted financial liabilities** | 14,387 | 9,642 | 6,062 | 10,302 | 5,962 | 1,029 | 47,384 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 5,192 | - | - | - | - | - | 5,192 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,579 | - | - | - | - | - | 4,579 |
| **Total undiscounted contingent liabilities and commitments** | 9,771 | - | - | - | - | - | 9,771 |

## Note 41 Funding and liquidity risk (continued)

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 September 2008 – Audited | | | | | | |
| | Overnight $m | Less Than 1 Month $m | Over 1 Month to 3 Months $m | Over 3 Months to 1 Year $m | Over 1 Year to 5 Years $m | Over 5 Years $m | Total $m |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 110 | - | - | - | - | - | 110 |
| Due from other financial institutions | - | - | - | - | - | - | - |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 12 | - | - | - | - | - | 12 |
| Other trading securities | 1,973 | - | - | - | - | - | 1,973 |
| Available-for-sale securities | - | - | - | - | 35 | - | 35 |
| Loans | 1,876 | 1,352 | 3,660 | 2,040 | 8,064 | 92,957 | 109,949 |
| Due from related entities: | | | | | | | |
| Non-derivative balances | 946 | - | 30 | 88 | 1,698 | - | 2,762 |
| Investments in related entities | - | - | - | - | - | 238 | 238 |
| Other financial assets | - | 176 | - | - | - | - | 176 |
| **Total undiscounted financial assets** | 4,917 | 1,528 | 3,690 | 2,128 | 9,797 | 93,195 | 115,255 |
| **Liabilities** | | | | | | | |
| Deposits at fair value | 4,163 | - | - | - | - | - | 4,163 |
| Deposits at amortised cost | 9,748 | 5,078 | 5,565 | 5,885 | 2,419 | 1 | 28,696 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - |
| Debt issues | - | 26 | 20 | 353 | 1,422 | 56 | 1,877 |
| Other financial liabilities | - | 588 | - | - | - | - | 588 |
| Subordinated debentures | - | - | 23 | 59 | 300 | 970 | 1,352 |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 2,821 | 1,672 | 1,091 | 5,443 | 1,050 | - | 12,077 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | (159) | - | - | - | - | - | (159) |
| Held for hedging purposes (net settled) | - | (29) | (27) | 115 | 257 | - | 316 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | - | - | - | - | - | - |
| Cash inflow | - | - | - | - | - | - | - |
| **Total undiscounted financial liabilities** | 16,573 | 7,335 | 6,672 | 11,855 | 5,448 | 1,027 | 48,910 |
| **Total contingent liabilities and commitments** | | | | | | | |
| Other commitments to provide financial services which have an original maturity of one year or more | 6,318 | - | - | - | - | - | 6,318 |
| Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time | 4,299 | - | - | - | - | - | 4,299 |
| **Total undiscounted contingent liabilities and commitments** | 10,617 | - | - | - | - | - | 10,617 |

# Note 42 Concentration of funding

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **Funding consists of** | | | | | | |
| Deposits at fair value | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| Deposits at amortised cost | **28,619** | 27,640 | 28,064 | **28,619** | 27,640 | 28,064 |
| Debt issues[1] | **11,492** | 11,260 | 11,102 | **1,753** | 716 | 1,582 |
| Perpetual subordinated notes | **970** | 970 | 970 | **970** | 970 | 970 |
| Due to related entities | **2,584** | 964 | 2,249 | **20,293** | 11,454 | 11,843 |
| **Total funding** | **47,734** | 45,118 | 46,548 | **55,704** | 45,064 | 46,622 |
| **Analysis of funding by product** | | | | | | |
| Saving accounts | **6,762** | 6,481 | 6,902 | **6,762** | 6,481 | 6,902 |
| Certificates of deposits | **4,069** | 4,284 | 4,163 | **4,069** | 4,284 | 4,163 |
| Demand deposits | **4,451** | 4,263 | 4,552 | **4,451** | 4,263 | 4,552 |
| Other deposits and borrowings | **28,898** | 28,156 | 27,712 | **19,159** | 17,612 | 18,192 |
| Perpetual subordinated notes | **970** | 970 | 970 | **970** | 970 | 970 |
| **Subtotal** | **45,150** | 44,154 | 44,299 | **35,411** | 33,610 | 34,779 |
| Due to related entities | **2,584** | 964 | 2,249 | **20,293** | 11,454 | 11,843 |
| **Total funding** | **47,734** | 45,118 | 46,548 | **55,704** | 45,064 | 46,622 |
| **Analysis of funding by geographical areas[1]** | | | | | | |
| New Zealand | **33,801** | 32,313 | 33,024 | **50,356** | 42,803 | 43,147 |
| Australia and Asia-Pacific | **2,441** | 1,545 | 2,417 | **3,595** | 1,545 | 1,893 |
| United Kingdom and Europe | **8,135** | 7,003 | 5,725 | **1,753** | 716 | 1,582 |
| North America | **3,357** | 4,257 | 5,382 | **-** | - | - |
| **Total funding** | **47,734** | 45,118 | 46,548 | **55,704** | 45,064 | 46,622 |
| **Analysis of funding by industry and economic sector** | | | | | | |
| Accommodation, cafes and restaurants | **111** | 114 | 101 | **111** | 114 | 101 |
| Agriculture, forestry and fishing | **1,248** | 1,349 | 1,325 | **1,248** | 1,349 | 1,325 |
| Construction | **380** | 374 | 360 | **380** | 374 | 360 |
| Finance and insurance | **18,712** | 17,534 | 17,340 | **8,973** | 6,990 | 7,820 |
| Government administration and defence | **586** | 423 | 369 | **586** | 423 | 369 |
| Manufacturing | **582** | 670 | 726 | **582** | 670 | 726 |
| Mining | **22** | 21 | 21 | **22** | 21 | 21 |
| Property | **2,736** | 4,111 | 3,916 | **2,736** | 4,111 | 3,916 |
| Services | **2,604** | 2,981 | 2,660 | **2,604** | 2,981 | 2,660 |
| Trade | **740** | 763 | 688 | **740** | 763 | 688 |
| Transport and storage | **555** | 411 | 409 | **555** | 411 | 409 |
| Utilities | **169** | 244 | 403 | **169** | 244 | 403 |
| Retail deposits | **16,322** | 14,675 | 15,349 | **16,322** | 14,675 | 15,349 |
| Other | **383** | 484 | 632 | **383** | 484 | 632 |
| **Subtotal** | **45,150** | 44,154 | 44,299 | **35,411** | 33,610 | 34,779 |
| Due to related entities | **2,584** | 964 | 2,249 | **20,293** | 11,454 | 11,843 |
| **Total funding** | **47,734** | 45,118 | 46,548 | **55,704** | 45,064 | 46,622 |

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

## Note 43 Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the Banking Group. It arises primarily from the Banking Group's lending activities, and may also arise from interbank, treasury and international trade activities.

The Banking Group takes collateral where it is considered necessary to mitigate credit risk and evaluates each customer's credit risk on a case-by-case basis. The amount of collateral taken is based on management's credit evaluation of the counterparty. The collateral taken may vary, but could include cash deposits, receivables, inventory, plant and equipment, real estate and/or investments.

The Banking Group currently has not obtained any financial or non-financial assets by taking possession of collateral it holds as security or calling on other credit enhancements.

The Banking Group adopts two approaches to managing credit risk depending upon the nature of the customer and product:

- **Transaction-managed approach:**
  For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the 'transaction-managed' approach). Such customers are assigned a customer risk grade ('**CRG**') based on the Banking Group's estimate of their probability of default ('**PD**'). Each facility is assigned a Loss Given Default ('**LGD**') taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of exposure in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.
- **Program-managed approach:**
  High-volume customer credit portfolios with homogenous credit risk characteristics are managed on a statistical basis according to predetermined objective criteria (the 'program-managed' approach). Quantitative scorecards are used to assign application and behavioural scores to enable risk-based decision making within these portfolios. The scorecard outcomes and decisions are regularly monitored and validated against subsequent customer performance and recalibrated (or rebuilt) when required. For capital estimation (and other purposes), risk-based customer segments are created based on expected PD, and LGDs are assigned for each segment based on historic experience and management judgement.

For both approaches, the assignment of CRGs, PDs and LGDs are reviewed annually.

The Banking Group is responsible for implementing and operating within established risk management frameworks and policies and has adapted the Ultimate Parent Bank Group's credit risk policy to the Banking Group's customer and product set. Accordingly, the Banking Group has its own credit manuals and delegated approval authorities which are approved by the Ultimate Parent Bank Group.

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

All business units produce regular delinquency reports that detail excesses and out of order positions. These reports trigger appropriate remedial action consistent with risk management procedures aligned to credit approval authority. Delinquency reporting is used to monitor portfolio performance, origination policies and credit decision making.

Credit policies with group-wide implications are owned by the Group Risk division of the Ultimate Parent Bank ('**Ultimate Parent Bank Group Risk**') and approved by the Ultimate Parent Bank Group Credit Risk Committee. These policies are administered locally.

Ultimate Parent Bank Group Risk takes an enterprise-wide view of risk and its impact on performance, and develops Ultimate Parent Bank Group-wide risk strategy, framework and policies for the management of all risk classes. It is responsible for consistency, standardisation and control and defines Ultimate Parent Bank Group-wide risk management culture. Within these boundaries, the Banking Group has its own credit approval limits as delegated by the Ultimate Parent Bank Group Chief Risk Officer. These establish a hierarchy of credit approval levels, aligned to customer risk grades and consistent with normal customer exposures in the business.

### Credit risk mitigation

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers domiciled in New Zealand only. Customers are required to enter into formal agreements giving the Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Bank's net exposure within each of these two jurisdictions. Cross-border set-offs are not permitted.

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank to net settlements on any day to reduce cash flow exchanges between counterparties. Close-out netting effectively aggregates pre-settlement risk exposure at time of default, thus reducing overall exposure.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. The value of the guarantee is not separately recorded, and therefore not available for disclosure.

### Overview of internal credit risk ratings system and relationship between internal and external ratings

The Banking Group's internal credit risk rating system for transaction-managed customers assigns a CRG to each customer, corresponding to their expected PD. The Banking Group risk rating system has 20 risk grades for non-defaulted customers and 10 risk grades for defaulted customers. Non-defaulted CRGs are mapped to Moody's and Standard & Poor's external senior ranking unsecured ratings. This mapping is reviewed annually and allows the Banking Group to use the rating agencies' long-run default history to calculate long-run average PDs.

## Note 43 Credit risk (continued)

The table below shows the current alignment between the Banking Group's CRGs and the corresponding external rating. Note that only high-level CRGs groupings are shown.

### Mapping of the Banking Group risk grades

| Banking Group's customer risk grade | Standard & Poor's rating | Moody's rating | Supervisory slotting grade |
|---|---|---|---|
| A | AAA to AA- | Aaa to Aa3 | Strong |
| B | A+ to A- | A1 to A3 | Strong |
| C | BBB+ to BBB- | Baa1 to Baa3 | Strong |
| D | BB+ to B+ | Ba1 to B1 | Good/satisfactory |
| **Banking Group rating** | | | |
| E | Watchlist | | Weak |
| F | Specific mention | | Weak |
| G | Substandard/default | | Weak/default |
| H | Default | | Default |

The retail (program-managed) portfolio is segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristic(s) of default.

The retail portfolio is divided into multiple segments. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('**EAD**').

### Use of internal credit risk estimates

In addition to using the credit risk estimates for regulatory capital purposes they are also used in the following processes:

***Economic capital***

The Banking Group allocates economic capital to all exposures. Economic capital includes both credit and non-credit components. Economic credit capital is allocated using a framework that considers estimates of PD, LGD, EAD and maturity.

***Pricing***

The Banking Group prices loans so as to produce an acceptable return on the economic capital allocated to the loan. Returns include interest income and fees after expected losses and other costs.

***Provisioning***

Loan loss provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction managed portfolios provisions use the risk grading framework and PD, LGD and EADs assigned to each customer as the basis for the calculation.

***Credit approval authorities***

For transaction-managed facilities, the approval authorities are allocated based on the CRG with lower limits applicable for customers with a higher PD.

Program-managed facilities are approved on the basis of application scorecard outcomes and product-based approval authorities.

***Risk-adjusted performance measurement***

Business unit performance is measured using an economic profit framework which incorporates charges for economic credit capital as well as capital for other risk types.

### Process for managing and recognising credit risk mitigation

The Banking Group achieves credit risk mitigation in either of the following ways:

***Risk reduction***

The Banking Group reduces credit risk exposure to a customer by either:

- collateralisation, where the exposure is secured by eligible financial collateral or protection is bought via credit linked notes, provided the proceeds are invested in eligible financial collateral; or
- formal set-off arrangements.

***Control mechanisms for the credit risk rating system***

The Banking Group's Risk Rating System is reviewed annually to ensure the rating criteria and procedures are applicable to the current portfolio and external conditions. The annual review of the Credit Risk Rating Framework is approved by the BRMC.

To ensure the risk rating system is applied consistently across the Banking Group, the Banking Group's Portfolio Risk Review team independently review end to end technical and operational aspects of the overall process.

## Note 43 Credit risk (continued)

Models materially impacting the risk rating process are reviewed annually in accordance with the Ultimate Parent Bank Group's model risk policy.

Specific credit risk estimates (including PD, LGD and the Credit Conversion Factor ('**CCF**')) are overseen and approved by a subcommittee of the Ultimate Parent Bank Group Credit Risk Committee. These estimates are reviewed annually.

### Description of internal ratings process, by portfolio

***(a) Transaction-managed asset class approach (business lending, corporate, sovereign and bank)***

The process for assignment and approval of individual PDs and LGDs is that line business unit representatives recommend the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgement decisioning process is employed to evaluate the CRG. All of the above exposure categories also apply to Specialised Lending, which in the Banking Group comprises Property Finance (Income Producing Real Estate). Regulatory risk-weights are applied to the specialised lending portfolio.

*Types of exposure included in the portfolio*

Corporate, sovereign and banking exposures include:

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- foreign exchange settlement exposures; and
- transaction exposures.

*Definitions, methods and data for estimation and validation of Probability of Default, Loss Given Default and Exposure at Default*

*(i) Probability of Default*

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. PD is represented in a customer's risk grade.

*(ii) Loss Given Default*

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn. The evaluation of an LGD for each credit facility takes into account the value of assets to which the Banking Group has recourse and over which it has security. It also reflects the seniority of exposure in the capital and debt structure of company customers.

LGD estimates are benchmarked against observed historical LGDs from internal and external data and are calibrated to reflect losses expected in an economic downturn. The calculation of historical LGDs is based on an economic loss and includes allowances for workout costs and the discounting of future cash flows to the date of default.

LGD values range from 5% to 100%. The range of LGD values ensures that the risk of loss is differentiated across many credit facilities extended to customers.

*(iii) Exposure at Default and Credit Conversion Factor*

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default. The proportion of undrawn commitments ultimately is termed the CCF. EAD thus consists of initial outstanding balances, plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCF's are all 100 percent.

***(b) Retail asset class approach (including residential mortgages, small business and other retail)***

*Definitions, methods and data for estimation and validation of PD, LGD and/or EAD*

*(i) General*

Each customer is rated using details of their account performance or application details and segmented into pools of similar risk. These pools are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristic(s) of default. The retail portfolio is divided into a number of pools per product. Each pool is assigned a quantified measurement of its PD, LGD and EAD.

*(ii) Probability of Default*

PDs are assigned at the retail pool level and reflect the likelihood of accounts within that pool to default. A long-run average is used to assign a PD to each account in a pool based on the pool's characteristics. The PD estimate for each pool is based on internal data.

*(iii) Loss Given Default*

LGD measures the proportion of the exposure that will be lost if default occurs. LGD is measured as a percentage of EAD. The approach to LGD varies depending on whether the retail product is secured or unsecured. A downturn period is used to reflect the effect on the collateral for secured products. For unsecured products, a long-run estimate is used for LGD.

*(iv) Exposure at Default*

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default.

### Maximum exposure to credit risk

The Banking Group's maximum exposure to credit risk as at 31 March 2009 was $66,477 million (31 March 2008: $60,769 million, 30 September 2008: $64,845 million).

## Note 43 Credit risk (continued)

### Summary of the Banking Group's total credit risk as calculated under the Basel II Framework

The Banking Group's total credit risk for the six months ended 31 March 2009 was as follows:

| | Risk-weighted Exposure Unaudited $m | Minimum Capital Requirement Unaudited $m |
|---|---|---|
| **Internal risk base** | | |
| Residential mortgages | **10,913** | **873** |
| Other retail | **2,366** | **189** |
| Small business | **940** | **75** |
| Corporate | **2,542** | **203** |
| Business lending | **4,459** | **357** |
| Sovereign | **48** | **4** |
| Bank | **229** | **18** |
| Equity | **114** | **9** |
| Specialised lending: Project and property finance | **5,448** | **436** |
| Standardised | **608** | **49** |
| **Total** | **27,667** | **2,213** |

### Mapping of Basel categories to the Banking Group portfolios

| Asset class | Sub-asset class | Banking Group category | Segmentation criteria |
|---|---|---|---|
| Corporate | Corporate | Corporate | All transaction-managed customers not elsewhere classified where annual turnover exceeds $50 million. |
| | SME corporate | Business lending | All transaction-managed customers not elsewhere classified where annual turnover is $50 million or less. |
| | Specialised lending | Specialised lending- property | Applied to transaction-managed customers where the primary source of debt service, security and repayment is derived from either the sale of a property develop-ment or income produced by one or more investment properties. |
| Sovereign | | Sovereign | Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code. |
| Bank | | Bank | Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code. |
| Residential mortgage | | Residential mortgages | All program-managed exposures secured by residential mortgages, including business loans under $1 million fully secured by residential mortgages. |
| Other retail | | Small business | Program-managed business lending, excluding business loans under $1 million secured by residential mortgages. |
| | | Other retail | All other program-managed lending to retail customers, including New Zealand credit cards. |

## Note 44 Credit risk exposures by asset class

### The Banking Group – Credit risk exposures by asset class as at 31 March 2009 (unaudited)

***Banking Group – Residential mortgages***

| PD Band (%) | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | 2,873 | - | 22 | 7 | 213 | 17 |
| 0.25 to 1.0 | 9,977 | 1 | 22 | 18 | 1,835 | 147 |
| 1.0 to 2.5 | 16,176 | 1 | 22 | 34 | 5,444 | 435 |
| 2.5 to 10.0 | 1,904 | 4 | 22 | 68 | 1,297 | 104 |
| 10.0 to 99.99 | 359 | 22 | 22 | 129 | 461 | 37 |
| Default | 808 | 100 | 22 | 206 | 1,663 | 133 |
| **Total** | 32,097 | 4 | 22 | 34 | 10,913 | 873 |

***Banking Group – Other retail (Credit cards, personal loans, personal overdrafts)***

| PD Band (%) | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | - | - | - | - | - | - |
| 0.25 to 1.0 | 1,079 | - | 63 | 40 | 434 | 35 |
| 1.0 to 2.5 | 694 | 2 | 67 | 87 | 604 | 48 |
| 2.5 to 10.0 | 682 | 5 | 67 | 104 | 707 | 57 |
| 10.0 to 99.99 | 194 | 23 | 66 | 151 | 293 | 23 |
| Default | 65 | 100 | 66 | 501 | 328 | 26 |
| **Total** | 2,714 | 6 | 65 | 87 | 2,366 | 189 |

***Banking Group – Small business***

| PD Band (%) | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| 0.00 to 0.10 | - | - | - | - | - | - |
| 0.10 to 0.25 | - | - | - | - | - | - |
| 0.25 to 1.0 | 583 | 1 | 18 | 14 | 84 | 7 |
| 1.0 to 2.5 | 1,515 | 2 | 17 | 24 | 358 | 28 |
| 2.5 to 10.0 | 593 | 5 | 20 | 31 | 187 | 15 |
| 10.0 to 99.99 | 54 | 27 | 21 | 53 | 29 | 2 |
| Default | 144 | 100 | 19 | 196 | 282 | 23 |
| **Total** | 2,889 | 8 | 18 | 33 | 940 | 75 |

***Banking Group – Corporate***

| PD Grade | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| AAA | - | - | - | - | - | - |
| AA | 13 | - | 60 | 11 | 1 | - |
| A | 277 | - | 59 | 20 | 56 | 4 |
| BBB | 447 | - | 42 | 35 | 158 | 13 |
| BB | 1,108 | 1 | 44 | 92 | 1,023 | 82 |
| B | 47 | 3 | 29 | 79 | 37 | 3 |
| Other | 336 | 20 | 55 | 286 | 962 | 77 |
| Default | 141 | 100 | 56 | 216 | 305 | 24 |
| **Total** | 2,369 | 9 | 47 | 107 | 2,542 | 203 |

# Note 44 Credit risk exposures by asset class (continued)

***Banking Group – Business lending***

| PD Grade | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| AAA | - | - | - | - | - | - |
| AA | 4 | - | 60 | 20 | 1 | - |
| A | 91 | - | 54 | 30 | 28 | 2 |
| BBB | 1,023 | - | 32 | 30 | 312 | 25 |
| BB | 5,072 | 1 | 29 | 57 | 2,884 | 231 |
| B | 139 | 3 | 31 | 71 | 99 | 8 |
| Other | 663 | 17 | 36 | 151 | 1,002 | 80 |
| Default | 26 | 100 | 48 | 513 | 133 | 11 |
| **Total** | 7,018 | 3 | 31 | 64 | 4,459 | 357 |

***Banking Group – Sovereign***

| PD Grade | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| AAA | 10 | - | 60 | 10 | 1 | - |
| AA | 6 | - | 60 | 13 | 1 | - |
| A | 319 | - | 24 | 9 | 28 | 3 |
| BBB | 98 | - | 19 | 18 | 18 | 1 |
| BBB | - | 1 | 23 | 72 | - | - |
| BB | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Default | - | - | - | - | - | - |
| **Total** | 433 | - | 24 | 11 | 48 | 4 |

***Banking Group – Bank***

| PD Grade | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| AAA | - | - | - | - | - | - |
| AA | 2,121 | - | 60 | 11 | 229 | 18 |
| A | - | - | - | - | - | - |
| BBB | - | - | - | - | - | - |
| BB | - | - | - | - | - | - |
| B | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Default | - | - | - | - | - | - |
| **Total** | 2,121 | - | 60 | 11 | 229 | 18 |

***Banking Group – Equity***

| PD Grade | EAD $m | Average PD % | Average LGD % | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|---|---|
| Equity holdings (not deducted from capital) that are publicly traded | 38 | - | - | 300 | 114 | 9 |

| | Undrawn Commitments and Other Off-balance Sheet Amounts | |
|---|---|---|
| | Value | EAD |
| Residential mortgages | 5,210 | 515 |
| Other retail (Credit cards, personal loans, personal overdrafts) | 2,683 | 1,105 |
| Small business | 979 | 562 |
| Corporate | 564 | 564 |
| Business lending | 1,103 | 1,103 |
| Sovereign | 154 | 154 |
| Bank | - | - |
| | 10,693 | 4,003 |

## Note 45 Credit risk exposures for specialised lending

**The Banking Group – Specialised lending: Project and property finance as at 31 March 2009 (unaudited)**

| Supervisory slotting grade | EAD $m | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|
| Strong | 961 | 70 | 673 | 54 |
| Good | 1,886 | 90 | 1,698 | 136 |
| Satisfactory | 983 | 115 | 1,130 | 90 |
| Weak | 779 | 250 | 1,947 | 156 |
| Default | 272 | - | - | - |
| **Total** | 4,881 | 112 | 5,448 | 436 |

**Additional information for Specialised lending: Project and property finance as at 31 March 2009 (unaudited)**

| | EAD $m | Average Risk Weight % | Risk-weighted Assets (scaled) $m | Required Regulatory Capital $m |
|---|---|---|---|---|
| Undrawn commitments and other off-balance sheet amounts | 427 | 115 | 491 | 39 |

## Note 46 Credit risk exposures subject to the standardised approach

**Credit risk exposures subject to the standardised approach as at 31 March 2009**

***Calculation of on-balance sheet exposures (unaudited)***

| | Total Exposure After Credit Risk Mitigation $m | Average Risk Weight % | Risk-weighted Exposure $m | Minimum Capital Requirement $m |
|---|---|---|---|---|
| Property, plant and equipment and other assets | 247 | 100 | 247 | 20 |
| Related parties | 501 | 47 | 235 | 19 |
| **Total on-balance sheet exposures** | 748 | | 482 | 39 |

***Calculation of off-balance sheet exposures (unaudited)***

| | Total Principal Amount $m | Credit Equivalent Amount $m | Average Risk Weight % | Risk-weighted Exposure $m | Minimum Capital Requirement $m |
|---|---|---|---|---|---|
| **Market related contracts subject to the standardised approach** | | | | | |
| Foreign exchange contracts | 9,687 | 344 | 20 | 69 | 6 |
| Interest rate contacts | 49,347 | 97 | 24 | 23 | 2 |
| **Total market related contracts subject to the standardised approach** | 59,034 | 441 | | 92 | 8 |
| **Standardised sub-total** | | | | 574 | |
| **After adjustment for scalar** | | | | 608 | |

## Note 47 Additional mortgage information for credit risk

**The Banking Group – Residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2009 (unaudited)**

| LVR range | 0-60% | 61-70% | 71-80% | 81-90% | Over 90% |
|---|---|---|---|---|---|
| Value of exposures | 11,617 | 5,070 | 6,072 | 5,448 | 3,145 |

# Note 48 Credit exposures to connected persons and non-bank connected persons

The Banking Group's credit exposure to connected persons is derived in accordance with the Reserve Bank of New Zealand document 'Connected exposures policy' (BS8) and is net of individual credit impairment allowances.

The Reserve Bank of New Zealand defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits, are net of specific provisions and exclude advances to connected persons of a capital nature. Peak end-of-day aggregate credit exposures to connected persons have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's Tier One Capital as at the end of the period. Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis, and partially on a gross basis. Netting has occurred in respect of certain transactions which are the subject of bilateral netting agreements disclosed in the Bank's most recent Supplemental Disclosure Statement. On this basis, there is a limit of 125% of the Banking Group Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

| | The Banking Group | | | |
|---|---|---|---|---|
| | **As at 31 March 2009 Unaudited $m** | **Peak End-of-Day for the Three Months Ended 31 March 2009 Unaudited $m** | As at 31 March 2008 Unaudited $m | Peak End-of-Day for the Three Months Ended 31 March 2008 Unaudited $m |
| Credit exposures to connected persons (on gross basis, before netting) | **797** | **3,967** | 2,703 | 4,014 |
| Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on gross basis, before netting) | **26.2%** | **130.2%** | 125.2% | 185.8% |
| Credit exposures to connected persons (netted amount) | **285** | **2,465** | 166 | - |
| Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (netted amount) | **9.4%** | **80.9%** | 7.7% | 0.0% |
| Credit exposures to connected persons (on partial bilateral net basis) | **512** | **1,502** | 2,537 | 4,014 |
| Credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period (on partial bilateral net basis) | **16.8%** | **49.3%** | 117.5% | 185.8% |
| Credit exposures to non-bank connected persons | **-** | **-** | - | - |
| Credit exposures to non-bank connected persons expressed as a percentage of Tier One Capital of the Banking Group at end of the period | **0.0%** | **0.0%** | 0.0% | 0.0% |

As at 31 March 2009, the rating-contingent limit applicable to the Banking Group was 75% of Tier One Capital. Within this overall rating-contingent limit there is a sub-limit of 15% of Tier One Capital which applies to the aggregate credit exposure to non-bank connected persons. There have not been any changes in these limits during the three months ended 31 March 2009.

The limits on aggregate credit exposure to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the three months ended 31 March 2009.

As shown in the table above, the end of period and peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group for the three months ended 31 March 2008, of 117.5% and 185.8% respectively, have exceeded the 75% rating-contingent limit. Accordingly, the limits on aggregate credit exposures to all connected persons in the Bank's conditions of registration for the comparative period have not been complied with.

The comparative period disclosure has been restated as the previous calculation (disclosed in the Bank's General Disclosure Statement for the six months ended 31 March 2008) incorrectly netted certain amounts which were not permitted to be netted under the Reserve Bank of New Zealand document 'Connected exposures policy' (BS8). Previously, the disclosure showed no exposures to connected persons.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with a syndicate of banks. These arrangements are called risk lay-off arrangements. As at 31 March 2009, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons) (31 March 2008: nil, 30 September 2008: nil).

The aggregate amount of the Banking Group's specific provisions provided against credit exposures to connected persons was nil as at 31 March 2009 (31 March 2008: nil, 30 September 2008: nil).

## Note 49 Concentration of credit exposures

| | The Banking Group | | | The Bank | | |
|---|---|---|---|---|---|---|
| | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m | **31 March 2009 Unaudited $m** | 31 March 2008 Unaudited $m | 30 September 2008 Audited $m |
| **On-balance sheet credit exposures consists of** | | | | | | |
| Cash and balances with central banks | **320** | 137 | 110 | **320** | 133 | 110 |
| Due from financial institutions | **3** | 2 | 3 | **-** | - | - |
| Other trading securities | **4,652** | 1,356 | 1,973 | **4,652** | 1,356 | 1,973 |
| Derivative financial instruments | **26** | 2 | 12 | **26** | 2 | 12 |
| Loans | **47,793** | 45,012 | 46,795 | **47,621** | 44,822 | 46,617 |
| Due from related entities | **453** | 2,352 | 2,349 | **8,385** | 2,222 | 2,305 |
| Other assets | **157** | 202 | 183 | **154** | 201 | 176 |
| **Total on-balance sheet credit exposures** | **53,404** | 49,063 | 51,425 | **61,158** | 48,736 | 51,193 |
| **Analysis of on-balance sheet credit exposures by geographical areas** | | | | | | |
| Within New Zealand | **53,364** | 48,930 | 51,367 | **61,116** | 48,603 | 51,135 |
| Australia and Asia-Pacific | **40** | 133 | 58 | **42** | 133 | 58 |
| **Total on-balance sheet credit exposures** | **53,404** | 49,063 | 51,425 | **61,158** | 48,736 | 51,193 |
| **Analysis of on-balance sheet credit exposures by industry and economic sector** | | | | | | |
| Accommodation, cafes and restaurants | **192** | 178 | 198 | **192** | 178 | 198 |
| Agriculture, forestry and fishing | **4,267** | 3,700 | 4,221 | **4,267** | 3,700 | 4,221 |
| Construction | **334** | 339 | 308 | **334** | 339 | 308 |
| Finance and insurance | **2,896** | 2,158 | 2,862 | **2,896** | 2,156 | 2,859 |
| Government administration and defence | **2,808** | 285 | 275 | **2,808** | 281 | 275 |
| Manufacturing | **904** | 773 | 811 | **904** | 773 | 811 |
| Mining | **73** | 88 | 74 | **73** | 88 | 74 |
| Property | **4,971** | 4,737 | 5,000 | **4,971** | 4,737 | 5,000 |
| Services | **942** | 784 | 838 | **942** | 784 | 838 |
| Trade | **1,107** | 1,056 | 1,083 | **1,107** | 1,056 | 1,083 |
| Transport and storage | **476** | 457 | 520 | **476** | 457 | 520 |
| Utilities | **181** | 227 | 205 | **181** | 227 | 205 |
| Retail lending | **34,330** | 32,104 | 32,958 | **34,150** | 31,910 | 32,774 |
| **Subtotal** | **53,481** | 46,886 | 49,353 | **53,301** | 46,686 | 49,166 |
| Provisions for impairment on loans | **(559)** | (227) | (300) | **(556)** | (224) | (296) |
| Due from related entities | **453** | 2,352 | 2,349 | **8,385** | 2,222 | 2,305 |
| Other assets | **29** | 52 | 23 | **28** | 52 | 18 |
| **Total on-balance sheet credit exposures** | **53,404** | 49,063 | 51,425 | **61,158** | 48,736 | 51,193 |
| **Off-balance sheet credit exposures and derivative exposures by credit equivalent consists of** | | | | | | |
| Contingent liabilities and commitments | **3,544** | 3,115 | 3,688 | **3,544** | 3,115 | 3,688 |
| Derivatives | **442** | 549 | 440 | **442** | 549 | 440 |
| **Total off-balance sheet credit exposures and derivative exposures by credit equivalent** | **3,986** | 3,664 | 4,128 | **3,986** | 3,664 | 4,128 |
| **Analysis of off-balance sheet credit exposures by industry and economic sector** | | | | | | |
| Accommodation, cafes and restaurants | **-** | 21 | 20 | **-** | 21 | 20 |
| Agriculture, forestry and fishing | **20** | 132 | 138 | **20** | 132 | 138 |
| Construction | **2** | 191 | 193 | **2** | 191 | 193 |
| Finance and insurance | **442** | 589 | 657 | **442** | 589 | 657 |
| Government administration and defence | **-** | 56 | 77 | **-** | 56 | 77 |
| Manufacturing | **18** | 171 | 167 | **18** | 171 | 167 |
| Mining | **2** | 7 | 6 | **2** | 7 | 6 |
| Property services and business services | **3,482** | 2,231 | 2,596 | **3,482** | 2,231 | 2,596 |
| Trade | **20** | 234 | 232 | **20** | 234 | 232 |
| Transport and storage | **-** | 21 | 33 | **-** | 21 | 33 |
| Utilities | **-** | 9 | 7 | **-** | 9 | 7 |
| Retail lending | **-** | 2 | 2 | **-** | 2 | 2 |
| **Total off-balance sheet credit exposures and derivative exposures by credit equivalent** | **3,986** | 3,664 | 4,128 | **3,986** | 3,664 | 4,128 |

Credit exposure is determined with reference to actual credit exposures.

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

# Note 49 Concentration of credit exposures (continued)

### Analysis of credit exposures to individual 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 Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: 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 Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2009 was nil (31 March 2008: nil, 30 September 2008: nil).

The peak end-of-day aggregate credit exposure has been calculated by determining the maximum end-of-day aggregate credit exposure over the relevant three-month period and then dividing that by the Banking Group's equity as at the end of the period. Credit exposure used in the above calculations is determined with reference to actual credit exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to those counterparties if they are recorded outside New Zealand nor exposures to connected persons or 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 Banking Group and were calculated net of individually assessed provisions.

# Note 50 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices. As the Bank's financial markets business is conducted by the Ultimate Parent Bank's NZ Branch, the market risks faced by the Banking Group are of a non-traded nature (banking book) only.

### Non-traded risk (interest rate risk in the banking book)

#### *Approach*

The banking book activities that give rise to market risk include lending activities, balance sheet funding and capital management. Interest rate risk, currency risk and funding and liquidity risk are inherent in these activities. Group Treasury's Asset and Liability Management unit ('**ALM**') is responsible for managing the interest rate risk arising from these activities.

#### *Asset and liability management*

ALM manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the Bank's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('**NII**') over time. These activities are performed under the direction of MARCO with oversight by the independent Market Risk Management unit. These activities are conducted within a risk framework and appetite set down by the BRMC. The New Zealand based Treasury staff manage the non-traded interest rate risk associated with the Bank's balance sheet.

#### *NII sensitivity*

NII sensitivity is managed in terms of the net interest income-at-risk ('**NaR**') modelled over a three-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. A simulation model is used to calculate the Bank's potential NaR. The NII simulation framework combines the underlying balance sheet data with assumptions about run off and new business, expected repricing behaviour and changes in wholesale market interest rates. Simulations using a range of interest rate scenarios are used to provide a series of potential future NII outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves. Additional stressed interest rate scenarios are also considered and modelled.

A comparison between the NII outcomes from these modelled scenarios indicates the sensitivity to interest rate changes.

#### *NaR limit*

The BRMC has approved a NaR limit. This limit is managed by the Group Treasurer and is expressed as a deviation from benchmark hedge levels over a one-year rolling time frame, at a 99% level of confidence. A portion of this NaR limit is assigned to the Bank's balance sheet. This limit is monitored by Market Risk Management.

#### *Value at risk limit*

The BRMC has also approved an overall value at risk ('**VaR**') limit for ALM. This limit is managed by the Group Treasurer and monitored by Market Risk Management.

# Note 50 Market risk (continued)

***Risk reporting***

Interest rate risk in the banking book risk measurement systems and personnel are centralised in Sydney, Australia. These include front office product systems which capture all treasury funding and derivative transactions, the transfer pricing system which captures all retail transactions in Australia and New Zealand, traded and non-traded VaR systems which calculate Group Treasury VaR and the NII system which calculates NII and NaR for the Australian and New Zealand balance sheets.

Daily monitoring of current exposure and limit utilisation is conducted independently by Market Risk Management, which monitors market risk exposures against VaR and NaR limits. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the senior management market risk forums of MARCO and BRMC respectively to ensure transparency of material market risks and issues.

***Risk mitigation***

Market risk arising in the banking book stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management. Hedging of the Bank's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow, fair value and net investment hedge approaches. Some derivatives held for economic hedging purposes do not meet the criteria for hedge accounting, and therefore are accounted for in the same way as derivatives held for trading.

The same controls as used to monitor traded market risk allow for continuous monitoring by management.

## Equity risk

Equity risk is the risk of loss arising from changes in the price of equity investments held by the Banking Group.

## Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (standardised approach)' (BS2A). The end of quarter aggregate interest rate exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (VaR) during the quarter, comparing this to the current and previous quarter end VaRs and calculating the peak risk by using the ratio of the peak to the quarter ends. This method is approximate only as the two methods differ in the assumed repricing characteristics of the balance sheet.

For each category of market risk, the Banking Group's 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 of New Zealand document 'Capital adequacy framework (standardised approach)' (BS2B).

For each category of market risk, the Banking Group's peak end-of-day notional capital charge as a percentage of the Banking Group's equity is the peak end-of-day notional capital charge for that category of market risk divided by the Banking Group's equity as at 31 March 2009.

The following table provides a summary of notional capital charges by risk type for the Banking Group as at 31 March 2009.

| **Market risk (unaudited)** | **Implied Risk-weighted Exposure $m** | **Aggregate Capital Charge $m** | **Aggregate Capital Charge as a Percentage of the Banking Group's Equity %** |
|---|---|---|---|
| Interest rate risk – as at 31 March 2009 | **863** | **69** | **1.90** |
| Interest rate risk – peak end-of-day for the three months ended 31 March 2009 | **1,700** | **136** | **3.73** |
| Foreign currency risk – as at 31 March 2009 | **38** | **3** | **0.08** |
| Foreign currency risk – peak end-of-day for the three months ended 31 March 2009 | **38** | **3** | **0.08** |
| Equity risk – as at 31 March 2009 | **38** | **3** | **0.08** |
| Equity risk – peak end-of-day for the three months ended 31 March 2009 | **38** | **3** | **0.08** |

| **Market risk (unaudited)** | Implied Risk-weighted Exposure $m | Aggregate Capital Charge $m | Aggregate Capital Charge as a Percentage of the Banking Group's Equity % |
|---|---|---|---|
| Interest rate risk – as at 31 March 2008 | 663 | 53 | 1.30 |
| Interest rate risk – peak end-of-day for the three months ended 31 March 2008 | 3,475 | 278 | 6.70 |
| Foreign currency risk – as at 31 March 2008 | 25 | 2 | 0.06 |
| Foreign currency risk – peak end-of-day for the three months ended 31 March 2008 | 50 | 4 | 0.09 |
| Equity risk – as at 31 March 2008 | 25 | 2 | 0.06 |
| Equity risk – peak end-of-day for the three months ended 31 March 2008 | 50 | 4 | 0.09 |

## VaR

The Banking Group applies a VaR methodology to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Banking Group, trading and non-trading separately.

VaR is an estimate of the potential loss in value, to a 99% confidence level assuming positions were held unchanged for one day. The Banking Group uses a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily.

## Note 50 Market risk (continued)

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. As VaR constitutes an integral part of the Banking Group's market risk control regime, VaR limits are established by the Board annually for all trading and non-trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by both the New Zealand Market Risk Management unit and Group Treasury.

The following table provides a summary of Interest Rate Risk VaR for the Banking Group's non-trading activities.

| | **Six Months Ended 31 March 2009 Unaudited $m** | Six Months Ended 31 March 2008 Unaudited $m | Year Ended 30 September 2008 Unaudited $m |
|---|---|---|---|
| Interest rate risk | **4.41** | 1.13 | 3.54 |

## Note 51 Interest rate risk

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

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2009. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the Banking Group's interest rate risk management framework is provided in Note 50.

**The Banking Group**

**31 March 2009 – Unaudited**

| | **Less Than 1 Month $m** | **1 Month to 3 Months $m** | **3 Months to 1 Year $m** | **1 Year to 2 Years $m** | **2 Years to 3 Years $m** | **3 Years to 4 Years $m** | **4 Years to 5 Years $m** | **Over 5 Years $m** | **Non-interest Bearing $m** | **Total $m** | **Weighted Average Interest Rate % [1]** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | **188** | - | - | - | - | - | - | - | **132** | **320** | **3.0** |
| Due from other financial institutions | **3** | - | - | - | - | - | - | - | - | **3** | **3.0** |
| Derivative financial instruments | - | - | - | - | - | - | - | - | **26** | **26** | - |
| Other trading securities | **1,907** | **1,739** | **1,006** | - | - | - | - | - | - | **4,652** | **3.3** |
| Available-for-sale securities | - | - | - | - | - | - | - | - | **38** | **38** | - |
| Loans | **20,615** | **5,389** | **8,069** | **8,055** | **3,551** | **1,866** | **669** | **138** | **(559)** | **47,793** | **7.9** |
| Due from related entities | **428** | - | - | - | - | - | - | - | **25** | **453** | **3.0** |
| Investment in associate | - | - | - | - | **48** | - | - | - | - | **48** | **8.8** |
| Other financial assets | - | - | - | - | - | - | - | - | **157** | **157** | - |
| **Total financial assets** | **23,141** | **7,128** | **9,075** | **8,055** | **3,599** | **1,866** | **669** | **138** | **(181)** | **53,490** | |
| Non-financial assets | | | | | | | | | | **878** | |
| **Total assets** | | | | | | | | | | **54,368** | |
| **Financial liabilities** | | | | | | | | | | | |
| Deposits at fair value | **717** | **2,079** | **1,269** | **4** | - | - | - | - | - | **4,069** | **3.3** |
| Deposits at amortised cost | **15,463** | **5,025** | **4,617** | **1,025** | **135** | **42** | **86** | **1** | **2,225** | **28,619** | **3.6** |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - | - |
| Other trading liabilities at fair value | **33** | **700** | **1,564** | - | - | - | - | - | - | **2,297** | **4.8** |
| Debt issues | **4,714** | **4,352** | **1,382** | - | **672** | - | **322** | **50** | - | **11,492** | **2.6** |
| Other financial liabilities | - | - | - | - | - | - | - | - | **504** | **504** | - |
| Perpetual subordinated notes | - | **970** | - | - | - | - | - | - | - | **970** | **7.1** |
| Due to related entities | **1,223** | - | **61** | - | **48** | - | - | - | **1,252** | **2,584** | **3.0** |
| **Total financial liabilities** | **22,150** | **13,126** | **8,893** | **1,029** | **855** | **42** | **408** | **51** | **3,981** | **50,535** | |
| Non-financial liabilities | | | | | | | | | | **185** | |
| **Total liabilities** | | | | | | | | | | **50,720** | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | **3,260** | **7,045** | **(2,333)** | **(5,052)** | **(1,798)** | **(1,249)** | **125** | **2** | - | - | |

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

## Note 51 Interest rate risk (continued)

| | The Banking Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | | | | | | |
| | Less Than 1 Month $m | 1 Month to 3 Months $m | 3 Months to 1 Year $m | 1 Year to 2 Years $m | 2 Years to 3 Years $m | 3 Years to 4 Years $m | 4 Years to 5 Years $m | Over 5 Years $m | Non-interest Bearing $m | Total $m | Weighted Average Interest Rate % [1] |
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | - | - | - | 137 | 137 | - |
| Due from other financial institutions | 2 | - | - | - | - | - | - | - | - | 2 | 8.3 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 30 | 30 | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 2 | 2 | - |
| Other trading securities | 289 | 340 | 727 | - | - | - | - | - | - | 1,356 | 8.8 |
| Loans | 15,142 | 3,303 | 8,403 | 8,221 | 5,332 | 2,968 | 1,797 | 73 | (227) | 45,012 | 9.3 |
| Due from related entities | 2,352 | - | - | - | - | - | - | - | - | 2,352 | 8.3 |
| Investment in associate | - | - | - | - | - | 48 | - | - | - | 48 | 8.8 |
| Other financial assets | - | - | - | - | - | - | - | - | 202 | 202 | - |
| **Total financial assets** | 17,785 | 3,643 | 9,130 | 8,221 | 5,332 | 3,016 | 1,797 | 73 | 144 | 49,141 | |
| Non-financial assets | | | | | | | | | | 770 | |
| **Total assets** | | | | | | | | | | 49,911 | |
| **Financial liabilities** | | | | | | | | | | | |
| Due to other financial institutions | - | - | - | - | - | - | - | - | - | - | - |
| Deposits at fair value | 889 | 1,824 | 1,566 | 3 | 2 | - | - | - | - | 4,284 | 8.9 |
| Deposits at amortised cost | 15,363 | 4,518 | 5,066 | 438 | 75 | 14 | 20 | 1 | 2,145 | 27,640 | 6.5 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 8 | 8 | - |
| Other trading liabilities at fair value | - | - | - | - | - | - | - | - | - | - | - |
| Debt issues | 3,662 | 1,124 | 3,854 | 1,955 | 29 | 304 | 283 | 49 | - | 11,260 | 4.5 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 587 | 587 | - |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 | 9.9 |
| Due to related entities | 916 | - | - | - | - | 48 | - | - | - | 964 | 8.3 |
| **Total financial liabilities** | 20,830 | 8,436 | 10,486 | 2,396 | 106 | 366 | 303 | 50 | 2,740 | 45,713 | |
| Non-financial liabilities | | | | | | | | | | 61 | |
| **Total liabilities** | | | | | | | | | | 45,774 | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | 6,464 | 11,196 | (4,150) | (6,640) | (3,334) | (2,206) | (1,330) | - | - | - | |

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

# Note 51 Interest rate risk (continued)

| | Less Than 1 Month $m | 1 Month to 3 Months $m | 3 Months to 1 Year $m | 1 Year to 2 Years $m | 2 Years to 3 Years $m | 3 Years to 4 Years $m | 4 Years to 5 Years $m | Over 5 Years $m | Non-interest Bearing $m | Total $m | Weighted Average Interest Rate % [1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **The Banking Group** | | | | | | | | | | |
| | 30 September 2008 – Audited | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | - | - | - | 110 | 110 | - |
| Due from other financial institutions | 3 | - | - | - | - | - | - | - | - | 3 | 7.5 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 12 | 12 | - |
| Other trading securities | 386 | 859 | 728 | - | - | - | - | - | - | 1,973 | 7.9 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 35 | 35 | - |
| Loans | 17,127 | 4,194 | 9,654 | 8,290 | 4,116 | 2,721 | 956 | 37 | (300) | 46,795 | 9.5 |
| Due from related entities | 2,311 | - | - | - | - | - | - | - | 38 | 2,349 | 7.5 |
| Investment in associate | - | - | - | - | - | 48 | - | - | - | 48 | 8.8 |
| Other financial assets | - | - | - | - | - | - | - | - | 183 | 183 | - |
| **Total financial assets** | 19,827 | 5,053 | 10,382 | 8,290 | 4,116 | 2,769 | 956 | 37 | 78 | 51,508 | |
| Non-financial assets | | | | | | | | | | 787 | |
| **Total assets** | | | | | | | | | | 52,295 | |
| **Financial liabilities** | | | | | | | | | | | |
| Deposits at fair value | 222 | 2,500 | 1,424 | 14 | 3 | - | - | - | - | 4,163 | 7.9 |
| Deposits at amortised cost | 15,640 | 5,199 | 4,834 | 248 | 69 | 24 | 19 | 1 | 2,030 | 28,064 | 6.6 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - | - | - | - | - |
| Debt issues | 7,953 | 1,035 | 853 | 539 | 362 | 310 | - | 50 | - | 11,102 | 4.4 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 696 | 696 | - |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 | 7.5 |
| Due to related entities | 1,825 | - | - | 61 | - | 48 | - | - | 315 | 2,249 | 7.5 |
| **Total financial liabilities** | 25,640 | 9,704 | 7,111 | 862 | 434 | 382 | 19 | 51 | 3,041 | 47,244 | |
| Non-financial liabilities | | | | | | | | | | 136 | |
| **Total liabilities** | | | | | | | | | | 47,380 | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | 5,863 | 10,383 | (3,458) | (6,599) | (3,112) | (2,174) | (905) | 2 | - | - | |

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

## Note 51 Interest rate risk (continued)

| | The Bank | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2009 – Unaudited | | | | | | | | | | |
| | Less Than 1 Month $m | 1 Month to 3 Months $m | 3 Months to 1 Year $m | 1 Year to 2 Years $m | 2 Years to 3 Years $m | 3 Years to 4 Years $m | 4 Years to 5 Years $m | Over 5 Years $m | Non-interest Bearing $m | Total $m | Weighted Average Interest Rate % [1] |
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | 188 | - | - | - | - | - | - | - | 132 | 320 | 3.0 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 26 | 26 | - |
| Other trading securities | 1,907 | 1,739 | 1,006 | - | - | - | - | - | - | 4,652 | 3.3 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 38 | 38 | - |
| Loans | 20,473 | 5,385 | 8,047 | 8,052 | 3,550 | 1,865 | 668 | 137 | (556) | 47,621 | 7.8 |
| Due from related entities | 812 | - | - | - | - | - | - | 7,500 | 73 | 8,385 | 6.7 |
| Investment in related entities | - | - | - | - | - | - | - | - | 281 | 281 | - |
| Other financial assets | - | - | - | - | - | - | - | - | 154 | 154 | - |
| **Total financial assets** | 23,380 | 7,124 | 9,053 | 8,052 | 3,550 | 1,865 | 668 | 7,637 | 148 | 61,477 | |
| Non-financial assets | | | | | | | | | | 785 | |
| **Total assets** | | | | | | | | | | 62,262 | |
| **Financial liabilities** | | | | | | | | | | | |
| Deposits at fair value | 717 | 2,079 | 1,269 | 4 | - | - | - | - | - | 4,069 | 3.3 |
| Deposits at amortised cost | 15,463 | 5,025 | 4,617 | 1,025 | 135 | 42 | 86 | 1 | 2,225 | 28,619 | 3.6 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | - | - | - |
| Other trading liabilities at fair value | 33 | 700 | 1,564 | - | - | - | - | - | - | 2,297 | 4.8 |
| Debt issues | 604 | 105 | - | - | 672 | - | 322 | 50 | - | 1,753 | 6.3 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 468 | 468 | - |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 | 7.1 |
| Due to related entities | 11,522 | 7,500 | - | - | - | - | - | - | 1,271 | 20,293 | 4.2 |
| **Total financial liabilities** | 28,339 | 16,379 | 7,450 | 1,029 | 807 | 42 | 408 | 51 | 3,964 | 58,469 | |
| Non-financial liabilities | | | | | | | | | | 181 | |
| **Total liabilities** | | | | | | | | | | 58,650 | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | 3,260 | 7,045 | (2,333) | (5,052) | (1,798) | (1,249) | 125 | 2 | - | - | |

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

## Note 51 Interest rate risk (continued)

| | The Bank | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 March 2008 – Unaudited | | | | | | | | | | |
| | Less Than 1 Month $m | 1 Month to 3 Months $m | 3 Months to 1 Year $m | 1 Year to 2 Years $m | 2 Years to 3 Years $m | 3 Years to 4 Years $m | 4 Years to 5 Years $m | Over 5 Years $m | Non-interest Bearing $m | Total $m | Weighted Average Interest Rate %[1] |
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | - | - | - | 133 | 133 | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 2 | 2 | - |
| Other trading securities | 289 | 340 | 727 | - | - | - | - | - | - | 1,356 | 8.8 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 30 | 30 | - |
| Loans | 14,995 | 3,297 | 8,372 | 8,216 | 5,329 | 2,968 | 1,796 | 73 | (224) | 44,822 | 9.3 |
| Due from related entities | 2,222 | - | - | - | - | - | - | - | - | 2,222 | 8.3 |
| Investment in related entities | - | - | - | - | - | - | - | - | 238 | 238 | - |
| Other financial assets | - | - | - | - | - | - | - | - | 201 | 201 | - |
| **Total financial assets** | 17,506 | 3,637 | 9,099 | 8,216 | 5,329 | 2,968 | 1,796 | 73 | 380 | 49,004 | |
| Non-financial assets | | | | | | | | | | 692 | |
| **Total assets** | | | | | | | | | | 49,696 | |
| **Financial liabilities** | | | | | | | | | | | |
| Due to other financial institutions | - | - | - | - | - | - | - | - | - | - | - |
| Deposits at fair value | 889 | 1,824 | 1,566 | 3 | 2 | - | - | - | - | 4,284 | 8.9 |
| Deposits at amortised cost | 15,363 | 4,518 | 5,066 | 438 | 75 | 14 | 20 | 1 | 2,145 | 27,640 | 6.5 |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 8 | 8 | - |
| Other trading liabilities at fair value | - | - | - | - | - | - | - | - | - | - | - |
| Debt issues | - | - | - | 326 | 30 | 310 | - | 50 | - | 716 | 8.2 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 495 | 495 | - |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 | 9.9 |
| Due to related entities | 11,454 | - | - | - | - | - | - | - | - | 11,454 | 8.3 |
| **Total financial liabilities** | 27,706 | 7,312 | 6,632 | 767 | 107 | 324 | 20 | 51 | 2,648 | 45,567 | |
| Non-financial liabilities | | | | | | | | | | 63 | |
| **Total liabilities** | | | | | | | | | | 45,630 | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | 6,464 | 11,196 | (4,150) | (6,640) | (3,334) | (2,206) | (1,330) | - | - | - | |

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

## Note 51 Interest rate risk (continued)

| The Bank<br>30 September 2008 – Audited | Less Than 1 Month $m | 1 Month to 3 Months $m | 3 Months to 1 Year $m | 1 Year to 2 Years $m | 2 Years to 3 Years $m | 3 Years to 4 Years $m | 4 Years to 5 Years $m | Over 5 Years $m | Non-interest Bearing $m | Total $m | Weighted Average Interest Rate %[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | | |
| Cash and balances with central banks | - | - | - | - | - | - | - | - | 110 | 110 | - |
| Derivative financial instruments | - | - | - | - | - | - | - | - | 12 | 12 | - |
| Other trading securities | 386 | 859 | 728 | - | - | - | - | - | - | 1,973 | 7.9 |
| Available-for-sale securities | - | - | - | - | - | - | - | - | 35 | 35 | - |
| Loans | 16,187 | 4,201 | 10,015 | 8,543 | 4,182 | 2,767 | 966 | 53 | (297) | 46,617 | 9.5 |
| Due from related entities | 2,258 | - | - | - | - | - | - | - | 47 | 2,305 | 7.5 |
| Investment in related entities | - | - | - | - | - | - | - | - | 238 | 238 | - |
| Other financial assets | - | - | - | - | - | - | - | - | 176 | 176 | - |
| **Total financial assets** | 18,831 | 5,060 | 10,743 | 8,543 | 4,182 | 2,767 | 966 | 53 | 321 | 51,466 | |
| Non-financial assets | | | | | | | | | | 711 | |
| **Total assets** | | | | | | | | | | 52,177 | |
| **Financial liabilities** | | | | | | | | | | | |
| Deposits at fair value | 222 | 2,500 | 1,424 | 14 | 3 | - | - | - | - | 4,163 | 7.9 |
| Deposits at amortised cost | 15,640 | 5,199 | 4,834 | 248 | 69 | 24 | 19 | 1 | 2,030 | 28,064 | 6.6 |
| Other trading liabilities at fair value | - | - | - | - | - | - | - | - | - | - | - |
| Debt issues | 860 | - | - | - | 362 | 310 | - | 50 | - | 1,582 | 8.4 |
| Other financial liabilities | - | - | - | - | - | - | - | - | 588 | 588 | - |
| Perpetual subordinated notes | - | 970 | - | - | - | - | - | - | - | 970 | 7.5 |
| Due to related entities | 11,540 | - | - | - | - | - | - | - | 303 | 11,843 | 7.5 |
| **Total financial liabilities** | 28,262 | 8,669 | 6,258 | 262 | 434 | 334 | 19 | 51 | 2,921 | 47,210 | |
| Non-financial liabilities | | | | | | | | | | 135 | |
| **Total liabilities** | | | | | | | | | | 47,345 | |
| **Off-balance sheet financial instruments** | | | | | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | | | | | |
| Receivable/(payable) | 5,863 | 10,383 | (3,458) | (6,599) | (3,112) | (2,174) | (905) | 2 | - | - | |

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

## Note 52 Foreign currency risk

With the exception of the available-for-sale investment in Visa shares, neither the Banking Group nor the Bank carries material foreign currency risk due to the risk being hedged with the Ultimate Parent Bank.

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## Auditors' Review Report

To the shareholders of Westpac New Zealand Limited

We have reviewed pages 14 to 95 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 9 and Clause 17 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the 'Order'). The financial statements provide information about the past financial performance and cash flows of Westpac New Zealand Limited (the 'Bank') and its subsidiaries (the 'Banking Group') for the period ended 31 March 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 22 to 32 and the requirements of the Order.

The supplementary information contains information prepared in accordance with Schedules 4 to 9 and Clause 17 of Schedule 3 of the Order.

### Directors' Responsibilities

The Directors of Westpac New Zealand Limited are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which give a true and fair view of the financial position of the Bank and the Banking Group as at 31 March 2009 and their financial performance and cash flows for the year ended on that date and which are not false or misleading. The General Disclosure Statement also includes supplementary information which complies with Schedules 3 to 9 of the Order.

### Reviewers' Responsibilities

We are responsible for reviewing the interim financial statements and the supplementary information disclosed in accordance with Clause 23, Schedules 4 to 9, and Clause 17 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in Notes 30, 38, 40, 43, 44, 45, 46, 47, and 48), we are responsible for reviewing these financial statements in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the interim financial statements do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding the capital adequacy information disclosed in Notes 38, 40, 43, 44, 45, 46, 47, and 48), we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the disclosures are not fairly stated in accordance with Schedules 4 and 6 to 9 of the Order, and for reporting our findings to you.

In respect of the supplementary information relating to capital adequacy disclosed in Notes 38, 40, 43, 44, 45, 46, 47, and 48, we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 5B

and for reporting our findings to you.

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**Auditors' Review Report**

Westpac New Zealand Limited

### Basis of Review Opinion

Our review has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We carry out other assignments on behalf of the Bank and the Banking Group in the area of taxation and other assurance advice. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation. We have no other interests in the Bank or the Banking Group.

### Review Opinion

We have examined the General Disclosure Statement in accordance with Clause 23 of the Order and the supplementary information prescribed in Schedules 4 to 9 and Clause 17 of Schedule 3 of the Order.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(a) the interim financial statements (excluding the supplementary information included in Notes 30, 38, 40, 43, 44, 45, 46, 47, and 48) do not present a true and fair view of the financial position of the Bank and the Banking Group as at 31 March 2009 and their financial performance and cash flows for the six months ended on that date;

(b) the supplementary information disclosed in Notes 30, 48, and 49 of the General Disclosure Statement prescribed by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order is not fairly stated in accordance with those Schedules; and

(c) the supplementary information relating to capital adequacy disclosed in Notes 38, 40, 43, 44, 45, 46, 47, and 48, as required by Schedule 5B of the Order, is not in all material respects:

   (i) prepared in accordance with the Bank's Conditions of Registration;

   (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

   (iii) disclosed in accordance with Schedule 5B of the Order.

Our work was completed on 27 May 2009 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants — Auckland

Westpac New Zealand Limited