Westpac New Zealand Limited
General Disclosure Statement

for the year ended 30 September 2010

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General information and definitions

Certain of the information contained in this General Disclosure Statement is 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 controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2010 are set out in Note 26 Related entities.

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, an Australian company ('**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 of 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 voting 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 (the '**Board**') and, as indirect holding companies of the Bank, both the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited have 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 ('**Reserve Bank**') (refer to the Bank's conditions of registration on page 5 of this General Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated as a branch in New Zealand. Effective 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 institutional banking and financial markets operations) 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). Further information on the NZ Branch is available in Westpac Banking Corporation's most recently published General Disclosure Statement.

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, and unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APRA's Prudential Standard APS 222 Associations with Related Entities ('**APS 222**'). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being a related ADI as defined in APS 222) 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 Directors of the Ultimate Parent Bank must have regard to:
  - the level of exposures 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.

Prior to 27 July 2010, section 13A(3) of the Australian Banking Act provided 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;
- second, 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
- third, the Ultimate Parent Bank's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

General matters (continued)

With effect from 27 July 2010, section 13A(3) of the Australian Banking Act was amended so 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 the liabilities of the Ultimate Parent Bank in the following order:

- first and second, as above;
- third, the Ultimate Parent Bank's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the Ultimate Parent Bank;
- fourth, the Ultimate Parent Bank's debts (if any) to the Reserve Bank of Australia;
- fifth, the Ultimate Parent Bank's liabilities (if any) under an emergency financial 'industry support contract' that is certified by APRA in accordance with the Australian Banking Act; and
- sixth, the Ultimate Parent Bank's other liabilities (if any) in the order of their priority apart from the above.

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

Directorate

The Directors of the Bank 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, Chairman
Independent Director: No[1]

External Directorships: Chairman of each of Kermadec Property Fund Limited and PF Olsen Group Limited. Director of each of Westpac Banking Corporation, Farmlands Trading Society Limited, PF Olsen Limited and The Colonial Motor Company Limited. Member of New Zealand Markets Disciplinary Tribunal and Chairman of the Special Division of that Tribunal.

Name: Philip Matthew Coffey, BEc (Hons.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Chief Financial Officer, Westpac Banking Corporation
Secondary Occupations: Director
Board Audit Committee Member: No
Independent Director: No

External Directorships: Director of each of Crusade Management Limited, Hastings Group Pty Limited, Sixty Martin Place (Holdings) Pty Ltd, Westpac Equity Holdings Pty Ltd, Westpac Financial Holdings Pty Limited, Westpac Financial Services Group Limited, Westpac Overseas Holdings No. 2 Pty Limited, Westpac Overseas Holdings Pty Ltd, Westpac Securitisation Management Pty Limited, MBMC Pty Ltd and MBMC Futures Pty Ltd.

Name: George Frazis, B.Eng. (Hons.), MBA (AGSM, Wharton)
Non-executive: No
Country of Residence: New Zealand
Primary Occupation: Chief Executive, Westpac New Zealand Limited
Secondary Occupations: Director
Board Audit Committee Member: No
Independent Director: No

External Directorships: Director of each of Westpac New Zealand Group Limited, BT Funds Management (NZ) Limited, BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Life-NZ-Limited, White Cap Investments Pty Ltd, Museum of Contemporary Art Ltd and Banking Ombudsman Scheme Limited.

Name: Christopher John David Moller[2]
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of each of New Zealand Transport Agency and New Zealand Cricket. Director of each of SKYCITY Entertainment Group Limited, Rugby New Zealand 2011 Limited, NZX Limited, Meridian Energy Limited and Trustee of each of Victoria University Foundation and Westpac Regional Stadium Trust.

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 New Zealand 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: Chairman of each of Fisher & Paykel Appliances Holdings Limited and Fletcher Building Limited. Director of each of Fletcher Building Industries Limited, Argie Pty Limited, Gragill Pty Limited, Fonterra Co-operative Group Limited, Tyree Holdings Pty. Ltd and Tyree Australia Pty Ltd.

1 While Peter Wilson is an Independent Director of the Ultimate Parent Bank he is not an Independent Director of the Bank under the conditions of registration imposed on the Bank.
2 Christopher John David Moller was appointed as a member of the Board with effect from 12 November 2010.

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

General matters (continued)

Changes to Directorate

- Elizabeth Blomfield Bryan resigned from the Board with effect from 21 October 2010. Her details while on the Board are set out below:

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

1 While Elizabeth Bryan is an Independent Director of the Ultimate Parent Bank she was not an Independent Director of the Bank under the conditions of registration imposed on the Bank.

- Christopher John David Moller was appointed as a member of the Board with effect from 12 November 2010. His details are set out on page 2.

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.

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 as at the date the Directors signed this General Disclosure Statement.

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

On 31 March 2010, the Bank's credit rating issued by Fitch Ratings was upgraded from AA- to AA with a 'stable' outlook. On 30 September 2008, the rating issued by Fitch Ratings was AA- with a 'positive' outlook and on 3 December 2008 the outlook was changed to 'stable'. This position was unchanged until 31 March 2010 when the credit rating was upgraded to AA with a 'stable' outlook.

In the two years prior to 30 September 2010, the Bank's credit rating issued by Moody's Investors Service has not changed at Aa2 with a 'stable' outlook.

In the two years prior to 30 September 2010, the Bank's credit rating issued by Standard & Poor's has not changed at AA with a 'stable' outlook.

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Credit ratings (continued)

Descriptions of credit rating scales[1]

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

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

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

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

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

(i) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together the '**Wholesale Guarantee**');

(ii) a Crown Deed of Guarantee dated 11 November 2008, amended by a supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**'); and

(iii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**').

The Bank's Deposit Guarantee and Revised Deposit Guarantee expired at the end of 11 October 2010. Therefore, as at the date the Directors signed this General Disclosure Statement, no obligations of the Bank are guaranteed by the Crown under the Deposit Guarantee or the Revised Deposit Guarantee.

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificate can be issued. Guaranteed Liabilities existing as at 30 April 2010 were not affected.

The following description of the Wholesale Guarantee is for general information purposes only and does not purport to be exhaustive. For full information on the terms of the Wholesale Guarantee refer to the Wholesale Guarantee, a copy of which is included in the Bank's Supplemental Disclosure Statement (refer to page 8).

The guarantor of the Bank's obligations under the Wholesale Guarantee is the Crown. 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 (with delivery made by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Wholesale Guarantee, and the expired Deposit Guarantee and Revised Deposit Guarantee, is available 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.

The Crown has the following credit ratings in respect of its long-term obligations payable in New Zealand dollars. The only change to the ratings in the two years immediately before the latest balance date was the Fitch Ratings outlook changing from stable to negative on 16 July 2009.

Rating Agency	The Crown's Current Credit Rating	Rating Outlook
Moody's Investors Service	Aaa	Stable
Standard & Poor's	AAA	Stable
Fitch Ratings	AAA	Negative

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Guarantee arrangements (continued)

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.

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.

For a liability of the Bank to be covered by the Wholesale Guarantee, the Bank must apply to the Crown for a Guarantee Eligibility Certificate in respect of that liability. The decision to issue a Guarantee Eligibility Certificate in respect of a liability of the Bank is at the absolute discretion of the Crown.

The Crown:

(i) guarantees to each Beneficiary the payment by the Bank of any Guaranteed Liability 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 pay that Guaranteed Liability.

In this context, a Beneficiary means each person to whom a Guaranteed Liability is owed, excluding a 'Related Party' of the Bank as that term is defined in the Wholesale Guarantee and anyone acting as a nominee of, or trustee for, a Related Party.

The Crown has issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank under certain notes issued by the Bank. The Crown has also issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank as guarantor of certain notes issued by Westpac Securities NZ Limited, a controlled entity of the Bank. Copies of the Guarantee Eligibility Certificates issued, which provide further details of the obligations of the Bank guaranteed by the Crown under the Wholesale Guarantee, are available on the New Zealand Treasury internet site www.treasury.govt.nz.

Limits on the amount of obligations guaranteed

The obligations of the Crown in respect of a Guaranteed Liability are limited to the relevant payment obligations of the Bank in respect of principal and interest under the particular debt securities that are specified in the relevant Guarantee Eligibility Certificate.

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 is not liable in respect of any Guaranteed Liability that has been amended in any respect without the prior written consent of the Crown.

(ii) The Crown is not liable in respect of any Guaranteed Liability until the Crown receives a written demand for that payment that complies with the requirements set out in the Wholesale Guarantee.

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

The Crown has also imposed a requirement that locally incorporated registered banks having the benefit of the Wholesale Guarantee maintain an additional 2% Tier One Capital ratio buffer, above the regulatory minimum 4% Tier One Capital ratio. The Bank complies with this requirement.

Expiry and withdrawal of the guarantee

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued. Guaranteed Liabilities existing as at 30 April 2010 were not affected.

For 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.

Pending proceedings or arbitration

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 contingent liabilities of the Banking Group and the Bank are set out in Note 29.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 15 October 2010, 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 document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010 is not less than 8%;

    (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010 is not less than 4%; and

    (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010 is not less than $30 million.

    For the purposes of this condition of registration, the scalar referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010 is 1.06.

    For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010 is the sum of:

    (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010; and

Conditions of registration (continued)

(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 document 'Capital adequacy framework (Basel I approach)' (BS2) dated October 2010;

(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 document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010; 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 document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010.

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 October 2010; 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 document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010.

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.

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 (% 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

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

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 document entitled 'Connected exposures policy' (BS8) dated October 2010.

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 Bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank, or any other entity capable of controlling or significantly influencing the Bank.

7. That the chairperson of the Bank's Board is not an employee of the Bank.

Conditions of registration (continued)

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 document entitled 'Outsourcing Policy' (BS11) dated January 2006.

   Until 30 September 2011, services provided by Payments NZ Limited, and related settlement services provided to the Bank by Westpac Banking Corporation, 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.
14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
   (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
   (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
   (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' ('BS13') dated March 2010 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.
15. That, with effect from 1 April 2010, the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

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. The Bank's conditions of registration were changed on 30 September 2010, with effect from 1 October 2010, with respect to condition 11 of the Bank's conditions of registration such that certain services provided to the Bank are not covered by that condition until 30 September 2011. Further, the Bank's conditions of registration were changed on 1 October 2010, with effect from 15 October 2010, to reflect the revised Reserve Bank documents entitled 'Capital adequacy framework (Basel I approach)' (BS2), 'Capital adequacy framework (internal models based approach)' (BS2B) and 'Connected exposures policy' (BS8), previously dated March 2008 and revised in October 2010.

The Reserve Bank's Outsourcing Policy (BS11) requires that certain core functions must be available under normal conditions and in the event of stress or failure of the Bank or of a service provider to the Bank. For the purposes of BS11 and condition 11 of the Bank's conditions of registration, services provided to the Bank by the Ultimate Parent Bank or the NZ Branch are regarded as outsourced. During the year ended 30 September 2010, the Bank has complied with condition 11 of its conditions of registration in place at the time except in the three aspects set out below, all of which involve certain services provided to the Bank by the Ultimate Parent Bank or its NZ Branch:

- In the event of stress or failure of the Bank, or of a service provider of the Bank, the Bank must be able to provide legal and practical controls relating to certain settlement tasks. The Bank needed to enhance its practical controls in this area and did so during the three months ended 31 December 2009.
- Growing customer demand for automated payment solutions has resulted in the need to add more legal and practical controls in relation to one product for a small number of business customers. The Bank completed the work necessary to remediate this issue on 30 June 2010.
- In the event of stress or failure of the Bank, or of a service provider of the Bank, the Bank must be able to deliver certain settlement services that are currently provided by the NZ Branch in relation to functions provided to the Bank by Interchange and Settlement Limited. This aspect of non-compliance relates to the period from 1 April 2010 to 30 September 2010. From 1 October 2010 the Bank complies with condition 11 of its conditions of registration as varied by the Reserve Bank on 30 September 2010.

Proposed transfer of additional banking operations to Westpac New Zealand Limited

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

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

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

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

Details of the changes are being worked through in consultation with the Reserve Bank as part of the implementation process.

As of 30 September 2010, business activities proposed to be transferred to the Bank include: customer loans of approximately $6.7 billion and customer deposits of approximately $5.5 billion. It is currently anticipated that term intra-group funding of approximately $3.0 billion will be put in place. In addition, for the year ended 30 September 2010, it is estimated that the business activities to be transferred to the Bank had aggregate revenues of approximately $170 million and aggregate net profit after tax of approximately $110 million.

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

In conjunction with the review and the proposed transfer of these business activities, the Bank has been reviewing its management and operational frameworks, including governance and risk management arrangements (such as board composition, board delegations, credit risk reporting and treasury risk reporting), financial and regulatory reporting processes, and settlement and payment systems and functions.

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

Other material matters

There are no matters relating to the business or affairs of the Bank and the Banking Group which are not contained elsewhere in the General Disclosure Statement and which would, if disclosed, materially adversely affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

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 the bilateral netting agreement (refer to Note 40) and a copy of the Crown Wholesale Funding Guarantee granted by the Crown in respect of the Bank (refer to page 4).

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Review of operations

Disclosure regarding forward-looking statements

This General Disclosure Statement contains statements that constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements appear in a number of places in this General Disclosure Statement and include statements regarding the intent, belief or current expectations with respect to the business and operations, market conditions and results of operations and financial condition of the Banking Group. Words such as "will", "may", "expect", "intend", "plan", "seek", "would", "should", "could", "continue", "estimate", "anticipate", "believe", "probability", "risk", or other similar words identify forward-looking statements. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause results to differ from those reflected in forward-looking statements relating to the Banking Group's operations and business include, but are not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy in New Zealand, Australia or other jurisdictions in which the Banking Group operates, does business or obtains funding;
- continuing impacts of the global financial crisis, including volatile conditions in funding, equity, currency and asset markets;
- changes to the credit ratings of the Banking Group or the Ultimate Parent Bank;

Review of operations (continued)

- inflation, interest rate, exchange rate, market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in consumer spending, saving and borrowing habits in New Zealand;
- the effects of competition in the geographic and business areas in which the Banking Group conducts its operations;
- the ability to maintain or to increase market share and control expenses;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- technological changes and risks associated with changes to the Banking Group's technology systems;
- demographic changes and changes in political, social or economic conditions in any of the major markets in which the Banking Group operates;
- stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses the Banking Group may experience as a result; and
- various other factors beyond the Banking Group's control.

You should read this General Disclosure Statement completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this General Disclosure Statement are qualified by these cautionary statements.

Overview

The Bank is one of New Zealand's largest banking organisations and provides a wide range of consumer and business banking products and services to consumers, small to medium sized businesses and the New Zealand Government.

Until 1 November 2006, the Ultimate Parent Bank operated in New Zealand through its NZ Branch. The Bank was incorporated on 14 February 2006 as a limited liability company under the Companies Act 1993 of New Zealand. The Banking Group has conducted the consumer and business banking operations formerly conducted by the NZ Branch since 1 November 2006 (refer to page 1 for further details). Accordingly, the Bank's financial statements for the financial year ended 30 September 2007 include only 11 months of operations. As a result, the results of operations for the financial year ended 30 September 2007 are not directly comparable to the results of operations for the financial years ended 30 September 2010, 2009 and 2008 (respectively '**2010**', '**2009**' and '**2008**').

Presentation of financial information

The Bank's financial statements included within this General Disclosure Statement have been prepared in accordance with the accounting policies described in Note 1 of the Bank's financial statements, which are in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), 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. They also comply with International Financial Reporting Standards ('**IFRS**') as issued by the International Accounting Standards Board.

In addition, the Bank's financial statements include supplementary information required by the Order.

The financial statements included within this General Disclosure Statement are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated. Except as otherwise expressly indicated, average balance sheet amounts for the financial year ended 30 September 2010 and 30 September 2009 are based on daily averages and for the financial year ended 30 September 2008 are based on month-end averages.

Certain comparative figures have been restated or reclassified to ensure consistent treatment with the current reporting period. As a result, comparatives may differ from those previously reported.

Currency of presentation, exchange rates and certain definitions

Items included within the Bank's financial statements are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The financial statements of the Bank and the Banking Group are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at the applicable balance sheet 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.

Critical accounting estimates, judgments and assumptions

The application of the Bank's accounting policies necessarily requires the use of estimates, judgments and assumptions. Should different estimates, judgments or assumptions be applied, the resulting values would change, impacting the net assets and income of the Banking Group. The Bank's Board Audit Committee ('**NZBAC**') reviews the accounting policies which are sensitive to the use of estimates, judgments and assumptions as part of its review of the integrity of the Bank's financial statements and General Disclosure Statements.

The estimates and assumptions used and the value of the resulting asset and liability balances in the Bank's financial statements are described in Note 1 of the Bank's financial statements. The judgments, apart from those involving estimations, that management has made in applying the Bank's accounting policies and that have the most significant impact on the amounts recognised in the Bank's financial statements are as described in Note 1 of the Bank's financial statements.

Selected consolidated financial and operating data

The following selected financial information as at and for the financial years ended 30 September 2010, 2009, 2008 and 2007 is derived from the Bank's financial statements. This information should be read together with the Bank's financial statements.

Review of operations (continued)

Historical summary of financial statements

	The Banking Group				
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m	Year Ended 30 September 2007[1] $m	Period from 14 February 2006 to 30 September 2006[2] $m
Income statement					
Interest income	**3,501**	3,988	4,327	3,337	15
Interest expense	**(2,337)**	(2,672)	(3,052)	(2,297)	(5)
Net interest income	**1,164**	1,316	1,275	1,040	10
Non-interest income	**291**	363	380	330	-
Net operating income	**1,455**	1,679	1,655	1,370	10
Operating expenses	**(704)**	(708)	(709)	(605)	-
Impairment charges on loans	**(334)**	(620)	(170)	(85)	-
Operating profit	**417**	351	776	680	10
Share of profit of associate accounted for using equity method	**1**	-	48	-	-
Profit before income tax expense	**418**	351	824	680	10
Income tax expense	**(132)**	(103)	(262)	(231)	(3)
Profit after income tax expense	**286**	248	562	449	7
Profit after income tax expense attributable to:					
Owners of the Banking Group	**283**	245	559	446	7
Non-controlling interests	**3**	3	3	3	-
	286	248	562	449	7
Dividends paid or provided	**(4)**	(328)	(335)	(217)	-
Balance sheet					
Total assets	**55,179**	54,509	52,295	47,011	2,415
Total impaired assets (including restructured assets)	**742**	671	278	118	-
Total liabilities	**51,131**	50,745	47,380	44,317	708
Total equity	**4,048**	3,764	4,915	2,694	1,707

1 The financial results for 2007 include the trading result of the Bank as a registered bank only for the 11 months period ended 30 September 2007.

2 The Bank was not trading as a registered bank during the period from 14 February 2006 to 30 September 2006.

The amounts for the years ended 30 September have been extracted from the audited financial statements of the Banking Group. The first accounting period for the Bank and the Banking Group was the period from 14 February 2006 to 30 September 2006.

Overview of performance – 2010 vs 2009

The Banking Group's financial performance for 2010 reflected the slowly improving economic conditions in New Zealand. Following a prolonged period of recession in New Zealand, the 2010 year reflected a period of fragile recovery, which caused the levels of housing delinquencies and business lending stressed assets to stabilise, and resulted in a substantial decline in impairment charges on loans from 2009.

Profit after income tax expense attributable to owners of the Banking Group increased $38 million or 16% to $283 million for 2010, compared to $245 million for 2009. This increase primarily resulted from the decline in impairment charges on loans.

Net interest income decreased $152 million or 12% to $1,164 million for 2010, compared to $1,316 million for 2009. This decrease was primarily due to a reduction in interest income earned on loans of $450 million, partially offset by a $303 million reduction in interest paid on deposits. The $450 million reduction in interest income on loans comprised a $574 million reduction due to a fall in average interest rates on loans as the average Official Cash Rate ('**OCR**') for 2010, which is the interest rate set by the Reserve Bank as part of its monetary policy, fell compared with 2009 and due to a time lag between incurring increased funding costs and the repricing of Consumer and Business Banking loans for which the interest rate is fixed for a period of time. This was offset by an extra $124 million of interest income resulting from increased lending volumes. The increased lending was predominantly due to 5.6% growth in home lending within Consumer Banking, compared to total system growth of 2.5%[1]. Business Banking lending grew by 2.8% against the overall system that contracted by 4.1%[1] (as revised by the Reserve Bank on 1 November 2010) in 2010. The Business Banking result included growth of 7.0% in lending to the agricultural sector against total system growth of 1.8%[1]. The decline in interest expense on deposits was primarily due to a reduction in interest paid on certificates of deposit, primarily as a result of lower certificate of deposit issuance following the commencement of the Reserve Bank's new BS13 liquidity requirements on 1 April 2010. Despite increased competition for customer deposits in New Zealand, total interest paid on at call and term deposits was lower during 2010 in line with a lower average OCR during the year. This was despite growth of 6.8% in customer deposits during 2010 across both Consumer and Business Banking, as term deposits became the preferred deposit product in 2010 in the low interest rate environment. The Banking Group's growth in customer deposits contrasts with system growth of 4.5%[1].

Non-interest income decreased $72 million or 20% to $291 million for 2010, compared to $363 million for 2009. This decrease was primarily due to the decision to reduce customer exception fees which is further explained below.

1 Reserve Bank, 12 months ended 30 September 2010.

Review of operations (continued)

Operating expenses decreased $4 million or 1% to $704 million for 2010, compared to $708 million for 2009. Operating expenses decreased due to a reduction in other expenses of $11 million or 4%, primarily as a result of lower outsourcing, consultancy and management fee expenses compared to 2009, which were partially offset by $3.5 million in expenses associated with the September 2010 Canterbury earthquake. This reduction in other expenses was partially offset by increased salaries and other expenses of $9 million or 3% driven primarily by an increased number of frontline bankers across both Consumer and Business Banking, as part of the Bank's focus on delivering service excellence to customers in their local community.

Impairment charges on loans decreased $286 million or 46% to $334 million for 2010, compared to $620 million for 2009. This decrease was primarily due to the absence of significant write-offs within the Business Banking division associated with large single name exposures, which had occurred in the prior year. As a consequence of the fragile economic recovery in New Zealand, delinquencies in the Consumer Banking's credit card and other retail lending portfolios improved in 2010 and stabilised both in the home lending portfolio and within Business Banking. Offsetting this was an additional $10 million economic overlay across the Consumer and Business Banking portfolios in view of the uncertainties surrounding the extent of the financial impact on customers from the Canterbury earthquake.

Dividends paid in 2010 of $4 million represent amounts paid to non-controlling interests. No additional dividends were declared in 2010 to preserve capital in light of the revised target capital ratios, as set out in the Bank's risk appetite statement, and ahead of the proposed transfer to the Bank of the additional banking operations presently conducted by the NZ Branch in 2011. In 2009 the $328 million of dividends paid represented a $220 million issue of ordinary shares in lieu of dividends, a $104 million dividend paid on the preference shares prior to their redemption and $4 million paid to non-controlling interests.

Income statement review – 2010 vs 2009

Net interest income

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Interest income	**3,501**	3,988
Interest expense	**(2,337)**	(2,672)
Net interest income	**1,164**	1,316
Increase/(decrease) in net interest income:		
Due to change in volume	**333**	128
Due to change in rate	**(485)**	(87)
Change in net interest income	**(152)**	41

Net interest income decreased $152 million or 12% to $1,164 million for 2010, compared to $1,316 million for 2009. This decrease was primarily due to a reduction in interest income earned on loans of $450 million, partially offset by a $303 million reduction in interest paid on deposits. The $450 million reduction in interest income on loans comprised a $574 million reduction due to a fall in average interest rates on loans as the average OCR fell during 2010 compared with 2009 and due to a time lag between incurring increased funding costs and the repricing of Consumer and Business Banking loans for which the interest rate is fixed for a period of time. This was offset by an extra $124 million of interest income resulting from increased lending volumes. The increased lending was predominantly due to 5.6% growth in home lending within Consumer Banking, compared to total system growth of 2.5%. Business Banking lending grew by 2.8% while the overall system contracted by 4.1% in 2010. The Business Banking lending growth included growth of 7.0% in lending to the agricultural sector compared to total system growth of 1.8%. The decline in interest expense on deposits was primarily due to a reduction in interest paid on certificates of deposit, as a result of lower certificate of deposit issuance following the commencement of the Reserve Bank's new BS13 liquidity requirements on 1 April 2010. Despite increased competition for customer deposits in New Zealand, total interest paid on at call and term deposits was lower during 2010, in line with a lower average OCR during the year. This was despite growth of 6.8% in customer deposits during 2010 across both Consumer and Business Banking, as term deposits became the preferred deposit product in 2010 in the low interest rate environment with system growth of 4.5%. Net interest income in both 2010 and 2009 was also impacted by the additional cost associated with the Bank's participation in the Deposit Guarantee and Revised Deposit Guarantee schemes.

Interest spread and margin

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Net interest income	**1,164**	1,316
Average interest earning assets	**53,704**	51,979
Average interest bearing liabilities	**48,229**	46,284
Average net non-interest bearing liabilities and equity	**5,475**	5,695
Interest spread[1] (%)	**1.67**	1.90
Benefit of net non-interest bearing liabilities and equity[2] (%)	**0.50**	0.63
Net interest margin[3] (%)	**2.17**	2.53

1 Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.
2 The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds (i.e. average non-interest bearing liabilities plus average equity less average non-interest earning assets) as a percentage of average interest earning assets.
3 Net interest margin is calculated by dividing net interest income by average interest earning assets.

Review of operations (continued)

Net interest margin decreased 36 basis points to 2.17% for 2010 compared to 2.53% for 2009. This decrease was primarily due to increased wholesale funding costs as a result of the global financial crisis and an increase in the weighted average tenor of wholesale funding during 2010, lower spreads on domestic deposits within both Consumer and Business Banking due to increased competition in New Zealand, a time lag between incurring increased funding costs and the repricing of Consumer and Business Banking loans for which the interest rate is fixed for a period of time, and a continued decline in market volatility throughout 2010 which reduced realised treasury income.

Non-interest income

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Fees and commissions	**287**	346
Gains on ineffective hedges	**3**	1
Other non-interest income	**1**	16
Total non-interest income	**291**	363

Non-interest income decreased $72 million or 20% to $291 million for 2010, compared to $363 million for 2009. This decrease was primarily due to the decision to reduce customer exception fees across both Consumer and Business Banking as part of the Bank's customer focused strategy. These fees are charged when a customer has insufficient funds available to make a payment, when an account is overdrawn without an overdraft facility in place, or, in the case of credit card accounts, when a due payment is late or an account breaches its agreed limit. This change in the structure of exception fees took effect on 1 October 2009 and consequently income from exception fees is not expected to return to former levels in the foreseeable future.

Operating expenses

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Salaries and other staff expenses	**354**	345
Equipment and occupancy expenses	**95**	97
Other expenses	**255**	266
Total operating expenses	**704**	708

Operating expenses decreased $4 million or 1% to $704 million for 2010, compared to $708 million for 2009. Operating expenses decreased due to a reduction in other expenses (which include outsourcing, consultancy and professional fees, software amortisation costs, advertising, training, travel and related entity management fees) of $11 million or 4%, as expense management and efficiency initiatives resulted in lower outsourcing, consultancy and management fee expenses compared to 2009, which were partially offset by $3.5 million in expenses associated with the September 2010 Canterbury earthquake. This reduction in other expenses was partially offset by increased salaries and other expenses of $9 million or 3% driven primarily by an increased number of frontline bankers across both Consumer and Business Banking. This investment in frontline bankers is part of the Bank's focus on delivering service excellence to customers in their local community, which also included the opening of eight new community branches during 2010.

Impairment charges

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Impairment charges on loans	**334**	620
Impairment charges to average gross loans (%)	**0.67**	1.29

Impairment charges on loans decreased $286 million or 46% to $334 million for 2010, compared to $620 million for 2009. This decrease was primarily due to the absence of significant write-offs within the Business Banking division associated with large single name exposures, which had occurred in the prior year, and saw a $155 million reduction in individually-assessed provisions within Business Banking. Business Banking also had a $167 million reduction in charges relating to the collectively assessed provision as economic conditions began to stabilise. However within Consumer Banking, a conservative adjustment to the factor charge, flow on effects of the prolonged recession and the 5% growth in average loans in 2010 resulted in an additional $71 million of collectively assessed provisions across the mortgage and other consumer loan portfolios, despite delinquencies in these portfolios either stabilising or improving. In view of the uncertainties surrounding the extent of the financial impact on customers from the Canterbury earthquake, an additional economic overlay of $10 million was raised in September 2010.

The impairment charges to average gross loans ratio decreased 0.62% to 0.67% over 2010, compared to 1.29% in 2009. This decrease was due to both the $286 million reduction in impairment charges on loans and the 3% growth in average gross loans across the Consumer and Business Banking portfolios.

Review of operations (continued)

Income tax expense

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Income tax expense	**132**	103
Income tax expense as a percentage of profit before income tax expense (%)	**31.6**	29.3

Income tax expense increased $29 million or 28% to $132 million for 2010, compared with $103 million for 2009. This increase was primarily driven by an increase in taxable income. The effective tax rate for 2010 was 31.6%, which was higher than the New Zealand corporate tax rate of 30% and higher than the effective tax rate for 2009 of 29.3%. This was primarily the result of the New Zealand Government enacting a reduction in the corporate tax rate from 30% to 28% in May 2010 which will apply to the Banking Group from 1 October 2011. Accordingly, deferred tax balances have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse after 1 October 2011. The impact of this remeasurement is an additional deferred tax expense of $6 million which primarily relates to provisions for impairment charges on loans.

Overview of performance – 2009 vs 2008

The Banking Group's financial performance for 2009 was impacted by the recessionary economic environment which resulted in increased customer delinquencies and loan provisioning in both the business and consumer portfolios. The tightening in credit markets and restricted wholesale markets led to increased reliance upon deposits as a funding source. The Banking Group experienced increased competition and compressed margins on key deposit products.

Profit after income tax expense attributable to owners of the Banking Group decreased $314 million or 56% to $245 million for 2009 compared to $559 million for 2008. This decline was primarily driven by a significant increase in impairment charges, reflecting the deterioration in the New Zealand economy.

Income statement review – 2009 vs 2008

Net interest income

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Interest income	**3,988**	4,327
Interest expense	**(2,672)**	(3,052)
Net interest income	**1,316**	1,275
Increase/(decrease) in net interest income:		
Due to change in volume	**128**	241
Due to change in rate	**(87)**	(6)
Change in net interest income	**41**	235

Net interest income increased $41 million or 3% to $1,316 million for 2009 compared to $1,275 million for 2008. Net interest income increased by $128 million due to higher loan volume but was substantially offset by a $87 million decrease due to decreased rates. Volume increases were primarily driven by an increase in home lending. Rate decreases were driven by changes in the OCR, which is the interest rate set by the Reserve Bank as part of its monetary policy. This decreased by 500 basis points over the year ended 30 September 2009. In addition, net interest income was impacted by increased wholesale funding costs and the increased costs of domestic deposits.

Interest spread and margin

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Net interest income	**1,316**	1,275
Average interest earning assets	**51,979**	46,552
Average interest bearing liabilities	**46,284**	42,287
Average net non-interest bearing liabilities and equity	**5,695**	4,265
Interest spread[1] (%)	**1.90**	2.07
Benefit of net non-interest bearing liabilities and equity[2] (%)	**0.63**	0.67
Net interest margin[3] (%)	**2.53**	2.74

1 Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.

2 The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds (i.e. average non-interest bearing liabilities plus average equity less average non-interest earning assets) as a percentage of average interest earning assets.

3 Net interest margin is calculated by dividing net interest income by average interest earning assets.

Review of operations (continued)

Net interest margin decreased 21 basis points to 2.53% for 2009 compared to 2.74% for 2008. This decrease was primarily due to a decrease in market volatility in 2009 resulting in a decrease in realised Treasury income, increased costs for wholesale funding and domestic deposits and a time lag between increased funding costs and re-pricing of loans for which the interest rate is fixed for a period of time.

Non-interest income

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Fees and commissions	**346**	356
Gains/(losses) on ineffective hedges	**1**	(1)
Other non-interest income	**16**	25
Total non-interest income	**363**	380

Non-interest income decreased $17 million or 4% to $363 million for 2009 compared to $380 million for 2008. The decrease in fees and commissions was mainly due to a fall in lending and transaction fees by $6 million and other non-risk fee income by $6 million year on year. The decrease in other non-interest income was primarily due to a fall in income from derivatives held for risk management purposes by $15 million, which was partially off-set by an increase in gains from disposal of property, plant and equipment by $3 million.

Operating expenses

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Salaries and other staff expenses	**345**	341
Equipment and occupancy expenses	**97**	89
Other expenses	**266**	279
Total operating expenses	**708**	709

Operating expenses for 2009 were $708 million, substantially the same as for 2008. Other operating expenses for 2009 included impairment charges on software of $3 million and for 2008 included impairment charges on software and property, plant and equipment of $21 million following a comprehensive review of carrying values.

Impairment charges

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Impairment charges on loans	**620**	170
Impairment charges to average gross loans (%)	**1.29**	0.38

Impairment charges on loans increased $450 million or 265% to $620 million for 2009 compared to $170 million for 2008. This increase was driven by the recessionary environment creating substantial stress across the New Zealand economy. The increase included increases of $286 million of business individually-assessed provision impairment charges resulting from deteriorating operating conditions for businesses (particularly in the commercial property sector), of $63 million of housing individually-assessed provision impairment charges resulting from continued stress in the housing portfolio and of $85 million of collectively-assessed provision impairment charges mainly due to an increase in the number of deteriorating exposures within the business portfolio. In addition, direct write-offs increased $24 million (primarily in other consumer loans), while interest adjustments were $8 million favourable.

Impairment charges to average gross loans increased from 0.38% to 1.29% at the end of 2009 compared to the end of 2008 as a result of the impact of worsening economic conditions on the Banking Group's delinquency profile.

Income tax expense

	The Banking Group	
	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m
Income tax expense	**103**	262
Income tax expense as a percentage of profit before income tax expense (%)	**29.3**	31.8

Review of operations (continued)

Income tax expense decreased $159 million or 61% to $103 million for 2009 compared to $262 million for 2008. The decrease resulted in part from the change in the New Zealand corporate tax rate at the start of 2009 from 33% to 30%. The effective tax rate was below the new New Zealand corporate tax rate of 30% due to a one-off adjustment recognising equity remuneration for executives following changes in reporting standards.

Distribution of assets, liabilities and equity: interest rates and interest differential

Except as otherwise expressly indicated, average balance sheet amounts presented in the following tables for the financial years ended 30 September 2010 and 30 September 2009 are based on daily averages and for the financial year ended 30 September 2008 are based on month-end averages.

Volume and rate movement

The following table allocates changes in net interest income between changes in volume and changes in interest rate for 2010, 2009 and 2008 for each major category of interest earning asset and interest bearing liability. Volume and rate variances have been calculated based on the movement in average balances and the changes in the interest rates on average interest-earning assets and average interest bearing liabilities. The variances caused by changes in both volume and rate have been allocated in proportion to the relationship of the absolute dollar amount of each change to the total.

The Banking Group

For the Year Ended 30 September

	2010			2009			2008		
	Change Due to Volume $m	**Change Due to Rate $m**	**Total $m**	Change Due to Volume $m	Change Due to Rate $m	Total $m	Change Due to Volume $m	Change Due to Rate $m	Total $m
Interest earning assets									
Cash and balances with central banks	**(7)**	**1**	**(6)**	-	13	13	-	-	-
Trading securities and other financial assets designated at fair value	**13**	**(44)**	**(31)**	204	(196)	8	(6)	27	21
Loans (including impaired loans)	**124**	**(574)**	**(450)**	261	(621)	(360)	370	599	969
Total change in interest income	**130**	**(617)**	**(487)**	465	(804)	(339)	364	626	990
Interest bearing liabilities									
Deposits[1]	**(24)**	**(279)**	**(303)**	113	(881)	(768)	178	425	603
Trading liabilities and other financial liabilities designated at fair value	**(64)**	**-**	**(64)**	83	-	83	-	-	-
Debt issues	**140**	**(118)**	**22**	5	(203)	(198)	149	15	164
Due to related entities (including perpetual subordinated notes)	**(255)**	**265**	**10**	132	367	499	(202)	192	(10)
Other	**-**	**-**	**-**	4	-	4	(2)	-	(2)
Total change in interest expense	**(203)**	**(132)**	**(335)**	337	(717)	(380)	123	632	755
Total change in net interest income[2]	**333**	**(485)**	**(152)**	128	(87)	41	241	(6)	235

1 Deposits includes deposits at fair value (including certificates of deposit) and deposits at amortised cost.

2 Total change in net interest income has been calculated as the total change in interest income minus the total change in interest expense.

Review of operations (continued)

Average balance sheets and analysis of net interest earnings

The following table shows the major categories of interest earning assets and interest bearing liabilities, and the respective interest rates that were earned or paid as at and for the financial years ended 30 September 2010, 2009 and 2008. The interest rates were calculated by dividing the amount of interest received or paid on the average interest earning assets and interest bearing liabilities, respectively. Interest income figures include interest income on non-accrual loans to the extent cash payments in the nature of interest have been received. Non-accrual loans are included under the interest earning asset category "Loans".

The Banking Group

For the Year Ended 30 September

	2010			2009			2008		
	Average Balance $m	**Interest Income/ Expense $m**	**Average Rate[1] %**	Average Balance $m	Interest Income/ Expense $m	Average Rate[1] %	Average Balance $m	Interest Income/ Expense $m	Average Rate[1] %
Assets									
Interest earning assets									
Cash and balances with central banks	**119**	**7**	**5.88**	279	13	4.66	6	-	-
Trading securities and other financial assets designated at fair value	**4,306**	**117**	**2.72**	3,965	148	3.73	1,614	140	8.67
Loans	**49,279**	**3,377**	**6.85**	47,735	3,827	8.02	44,932	4,187	9.32
Total interest earning assets and interest income	**53,704**	**3,501**	**6.52**	51,979	3,988	7.67	46,552	4,327	9.29
Non-interest earning assets	**1,466**			1,318			2,320		
Total assets	**55,170**			53,297			48,872		
Liabilities									
Interest bearing liabilities									
Deposits	**30,458**	**1,136**	**3.73**	30,973	1,439	4.65	29,462	2,207	7.49
Trading liabilities and other financial liabilities designated at fair value	**403**	**19**	**4.71**	1,734	83	4.79	-	-	-
Debt issues	**15,990**	**384**	**2.40**	11,534	362	3.14	11,427	560	4.90
Due to related entities (including perpetual subordinated notes)[2]	**1,378**	**794**	**N/A**	2,043	784	N/A	1,398	285	N/A
Other	**-**	**4**	**-**	-	4	-	-	-	-
Total interest bearing liabilities and interest expense	**48,229**	**2,337**	**4.85**	46,284	2,672	5.77	42,287	3,052	7.22
Non-interest bearing liabilities	**2,922**			2,763			2,801		
Total liabilities	**51,151**			49,047			45,088		
Net assets / net interest income / net yield	**4,019**	**1,164**	**1.67**	4,250	1,316	1.90	3,784	1,275	2.07
Total equity	**4,019**			4,250			3,784		

1 Calculated as interest income/expense divided by the corresponding average balance.

2 Includes net impact of Treasury balance sheet management activities.

Average interest earning assets in 2010 increased $1,725 million or 3% compared to 2009, primarily due to growth in average loans of $1,544 million in 2010, of which $1,435 million was in the housing portfolio. Home lending within Consumer Banking grew throughout 2010 at an annual rate of 5.6%, more than twice system growth of 2.5%. Business Banking lending grew by 2.8% compared to the overall system which contracted by 4.1% in 2010. The Business Banking lending growth included growth of 7.0% in lending to the agricultural sector compared to total system growth of 1.8%. Average interest bearing liabilities increased $1,945 million or 4% in 2010 compared to 2009. This was primarily due to an increase in average debt issues of $4,456 million or 39% compared to 2009 which was partially offset by decreases in average deposits of $515 million (due to the decline in certificates of deposit issuances), average due to related entities balances of $665 million and average trading liabilities and other financial liabilities designated at fair value balances of $1,331 million. The increase in average debt issues more than offset the funding gap created by the lower certificates of deposit issuance, as a result of the Reserve Bank's new BS13 liquidity requirements, and trading liabilities and other financial liabilities at fair value, following the expiry of the repurchase agreements entered into with the Reserve Bank to meet liquidity requirements during the global financial crisis.

Average interest earning assets in 2009 increased $5,427 million or 12% compared to 2008. Average loans increased by $2,803 million in 2009 with major growth in residential mortgages and loans for business purposes. Average trading securities and other financial assets designated at fair value increased by $2,351 million in 2009. Average interest bearing liabilities increased $3,997 million or 9% in 2009 compared to 2008. This increase was primarily due to an increase in average retail term deposits of $1,667 million and an increase in average trading liabilities and other financial liabilities designated at fair value of $1,734 million and an increase in average due to related entities of $645 million.

Review of operations (continued)

Balance sheet review

Consolidated Balance Sheet	The Banking Group			
	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Assets				
Cash and balances with central banks	**522**	213	110	102
Due from other financial institutions	**3**	3	3	-
Derivative financial instruments	**17**	22	12	-
Trading securities and other financial assets designated at fair value	**2,587**	4,421	1,973	2,382
Available-for-sale securities	**44**	37	35	-
Loans	**50,034**	48,174	46,795	42,559
Due from related entities	**830**	576	2,349	1,022
Current tax assets	**-**	10	-	-
Investment in associate	**48**	48	48	-
Goodwill and other intangible assets	**567**	575	579	603
Property, plant and equipment	**127**	92	76	88
Deferred tax assets	**257**	196	132	81
Other assets	**143**	142	183	174
Total assets	**55,179**	54,509	52,295	47,011
Liabilities				
Deposits at fair value	**1,990**	3,648	5,027	4,392
Deposits at amortised cost	**30,476**	28,847	27,200	25,019
Trading liabilities and other financial liabilities designated at fair value	**-**	1,885	-	-
Debt issues	**15,439**	12,369	11,102	11,699
Current tax liabilities	**14**	-	69	31
Provisions	**73**	76	67	54
Other liabilities	**541**	524	696	575
Total liabilities excluding perpetual subordinated notes and due to related entities	**48,533**	47,349	44,161	41,770
Perpetual subordinated notes	**970**	970	970	970
Total liabilities excluding due to related entities	**49,503**	48,319	45,131	42,740
Due to related entities	**1,628**	2,426	2,249	1,577
Total liabilities	**51,131**	50,745	47,380	44,317
Net assets	**4,048**	3,764	4,915	2,694
Equity				
Share capital	**3,470**	3,470	3,250	2,415
Preference share capital	**-**	-	1,300	-
Retained profits	**548**	284	344	249
Available-for-sale securities reserve	**25**	18	16	-
Cash flow hedge reserve	**(1)**	(15)	(3)	21
Total equity attributable to owners of the Banking Group	**4,042**	3,757	4,907	2,685
Non-controlling interests	**6**	7	8	9
Total equity	**4,048**	3,764	4,915	2,694

The amounts as at 30 September have been extracted from the audited financial statements of the Banking Group.

Assets – 2010 vs 2009

Total assets as at 30 September 2010 increased $670 million or 1.2% to $55.2 billion from $54.5 billion as at 30 September 2009. This was primarily due to an increase of $1.9 billion in loans, mainly due to an increase in home lending of $1.7 billion within Consumer Banking. Home lending grew at 5.6% within Consumer Banking compared to total system growth of 2.5%. Business Banking lending grew by 2.8% while the overall system contracted by 4.1% in 2010. This Business Banking lending growth included growth of 7.0% in lending to the agricultural sector against total system growth of 1.8%.

Trading securities and other financial assets designated at fair value decreased $1.8 billion due to a $1.0 billion reduction in holdings of government securities (which were used to fund the repayment of maturing certificates of deposit issued) and a $0.8 billion reduction in certificates of deposit held, in accordance with the Reserve Bank's new BS13 liquidity requirements.

Review of operations (continued)

Liabilities and equities – 2010 vs 2009

Total liabilities increased $386 million or 0.8% to $51.1 billion as at 30 September 2010 from $50.7 billion as at 30 September 2009.

Customer deposits increased by $1.5 billion across both Consumer and Business Banking, as term deposits became the preferred deposit product in 2010 in the low interest rate environment, while certificates of deposit declined by $1.6 billion as a result of the Reserve Bank's new BS13 liquidity requirements effective 1 April 2010, which restrict banks from holding certificates of deposit as liquid assets to 2% of their total assets. The increase of $3.1 billion in debt issues more than offset the funding gap created by the fall in trading liabilities and other financial liabilities designated at fair value of $1.9 billion following the expiry of the repurchase agreements entered into with the Reserve Bank to meet liquidity requirements during the global financial crisis in the prior period.

Total equity increased $284 million or 7.5% to $4.0 billion as at 30 September 2010 from $3.8 billion as at 30 September 2009 primarily due to a $264 million increase in retained profits. No new share capital was issued during the year ended 30 September 2010.

Assets – 2009 vs 2008

Total assets as at 30 September 2009 increased $2.2 billion or 4.2% to $54.5 billion from $52.3 billion as at 30 September 2008. This increase was primarily due to an increase of $2.4 billion in trading securities and other financial assets designated at fair value, which in turn was primarily due to the increase in the Banking Group's holdings of New Zealand Government securities. This increase in holdings of New Zealand Government securities was a result of the Bank adjusting the composition of its liquid assets portfolio in anticipation of the Reserve Bank's proposed liquidity policy. There was also an increase of $1.4 billion in loans mainly due to an increase in home lending.

Due from related entities decreased $1.8 billion in 2009 following repayment by the NZ Branch to the Bank of $1.3 billion on the winding up of a structured finance transaction and the replacement of customer foreign currency account ('**CFCA**') balances held with NZ Branch with a cross currency swap with a notional value of $0.4 billion as at 30 September 2009.

Liabilities and equities – 2009 vs 2008

Total liabilities increased $3.4 billion or 7.1% to $50.7 billion as at 30 September 2009 from $47.4 billion as at 30 September 2008. This increase was primarily due to an increase of $1.1 billion primarily as a result of an increase in term deposits as a result of changing retail funding, and an increase of $1.9 billion as a result of agreements with the Reserve Bank to repurchase residential mortgage-backed securities. This was partially offset by a decrease of $1.4 billion of deposits at fair value due to decline in certificates of deposit funding caused by a general reduction in inter-bank liquidity.

Debt issues increased $1.3 billion or 11.4% to $12.4 billion as at 30 September 2009 from $11.1 billion as at 30 September 2008. This change was primarily attributable to increases in domestic government guaranteed issuances in the New Zealand market.

Total equity decreased $1.1 billion or 23.4% to $3.8 billion as at 30 September 2009 from $4.9 billion as at 30 September 2008. The movement in equity was primarily due to the redemption of $1.3 billion of preference share capital by the Bank as a result of a structured finance transaction being terminated in February 2009.

Return on equity and assets

The following table sets out the Banking Group's return on assets, return on equity, dividend payout ratio and equity to assets ratios for 2010, 2009 and 2008, respectively.

	The Banking Group		
	30 September 2010 %	30 September 2009 %	30 September 2008 %
Return on assets[1]	**0.52**	0.47	1.15
Return on equity[2]	**7.12**	5.84	14.85
Dividend payout ratio on ordinary shares[3]	-	94.71	79.26
Equity to assets ratio[4]	**7.28**	7.97	7.74

1 Calculated as profit after income tax expense divided by average total assets.

2 Calculated as profit after income tax expense divided by average total equity.

3 Calculated as dividends declared per ordinary share divided by profit after income tax expense per ordinary share.

4 Calculated as average total equity divided by average total assets.

Review of operations (continued)

Asset quality

	The Banking Group			
	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Impaired assets				
Individually impaired assets:				
Gross	**742**	670	278	116
Impairment provisions	**(301)**	(150)	(65)	(26)
Net	**441**	520	213	90
Restructured loans:				
Gross	**-**	1	-	2
Impairment provisions	**-**	-	-	-
Net	**-**	1	-	2
Past due assets 90+ days:[1]				
Gross	**397**	346	221	156
Impairment provisions	**(54)**	(46)	(24)	(12)
Net	**343**	300	197	144
Net impaired assets	**784**	821	410	236
Provisions for impairment charges and credit commitments				
Individually assessed provisions	**301**	150	65	26
Collectively assessed provisions	**457**	405	257	194
Total provisions for impairment charges and credit commitments	**758**	555	322	220
Less: provision for credit commitment	**(29)**	(35)	(22)	(20)
Total provisions for impairment charges	**729**	520	300	200
Asset quality				
Total impairment provisions to total impaired assets[1] (%)	**31.2**	19.3	17.8	13.9
Total impaired assets to gross loans[1] (%)	**2.24**	2.09	1.06	0.64
Total provisions for impairment charges to gross loans (%)	**1.44**	1.07	0.64	0.47
Total provisions for impairment charges to total impaired assets[1] (%)	**64.0**	51.1	60.1	73.0
Collectively assessed provisions to non-housing non-performing loans (%)	**61.8**	70.2	109.8	145.9

1 Past due assets 90+ days with collectively assessed impairment provisions held against them are classified as impaired assets for US SEC reporting purposes. Under NZ IFRS, these assets are not included within impaired assets and the corresponding impairment provision on these assets is included within the collectively assessed provisions.

As at 30 September 2010 total impaired assets as a percentage of gross loans was 2.24%, an increase from 2.09% as at 30 September 2009 (1.06% as at 30 September 2008). This increase reflects the fragile nature of the recovery in the New Zealand economy following the New Zealand recession and the global financial crisis.

Total impairment provisions to total impaired assets coverage was 31.2% as at 30 September 2010 which was an increase from 19.3% as at 30 September 2009 (17.8% as at 30 September 2008). This increase was primarily driven by an increase in provisions against property exposures within Business Banking as recent sales have declined as the market has remained depressed. Total provisions for impairment charges to gross loans was 1.44% as at 30 September 2010 and increased from 1.07% as at 30 September 2009 (0.64% as at 30 September 2008). This increase was driven by higher total impairment provisions to total impaired assets coverage.

Potential problem loans as at 30 September 2010 were $864 million, a net increase of $171 million over 30 September 2009. The $171 million net increase was primarily due to an increase of $337 million attributable to loans identified as new potential problem loans in 2010 involving 18 customers, offset by a $152 million decrease attributable to loans which ceased to be potential problem loans in 2010 involving six customers and a net $41 million decrease attributable to six customers identified as having potential problem loans in both 2010 and 2009. The $337 million increase was predominantly driven by deteriorating conditions within the property sector. Loans are considered to be potentially problematic where facilities are fully current as to interest and principal obligations; however, the customer demonstrates significant weakness in debt service or security coverage that jeopardises repayment of the debt within its current contractual terms. In the event these weaknesses are not rectified, possible loss of principal or interest could occur.

As at 30 September 2009, total impaired assets as a percentage of gross loans was 2.09%, an increase from 1.06% as at 30 September 2008 (0.64% as at 30 September 2007). This increase reflected the impact of the New Zealand recession and the global financial crisis.

Total impairment provisions to total impaired assets coverage was 19.3% as at 30 September 2009 which was an increase from 17.8% as at 30 September 2008 (13.9% as of 30 September 2007). This increase was driven by the increase in total provisions for impairment charges from $0.3 billion in 2008 to $0.5 billion during 2009. Total provisions for impairment charges to gross loans were 1.07% as at 30 September 2009, up from 0.64% as at 30 September 2008 (0.47% as at 30 September 2007).

Review of operations (continued)

Summary for loan loss experience

Analysis of the allowance for loan losses

The following table provides an analysis of the allowance for loan losses as at and for the years ended 30 September 2010, 2009, 2008 and 2007.

	The Banking Group			
	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Balance of provisions for impairment charges and credit commitments (individually and collectively assessed) at beginning of the year	**555**	322	220	162
Write-offs:				
Overdrafts	**(16)**	(12)	(3)	(2)
Money market loans	**-**	(21)	-	-
Term loans:				
Housing	**(69)**	(44)	(14)	(2)
Non-housing	**(19)**	(251)	(8)	-
Total New Zealand	**(104)**	(328)	(25)	(4)
Recoveries:				
Overdrafts	**(5)**	-	(2)	(1)
Money market loans	**-**	-	-	-
Term loans:				
Housing	**(22)**	(16)	(11)	(6)
Non-housing	**(24)**	(5)	(9)	(7)
Total New Zealand	**(51)**	(21)	(22)	(14)
Charge to the income statement	**358**	582	149	76
Balance of provisions for impairment charges and credit commitments (individually and collectively assessed) at end of the year	**758**	555	322	220
Total write-offs, net of recoveries	**(53)**	(307)	(3)	10
Ratio of net write-offs to average loans outstanding during the year (%)	**0.11**	0.64	0.01	0.02

The increased provision at 30 September 2010 reflects the fragile nature of the recovery in the New Zealand economy following the New Zealand recession and the global financial crisis. During 2010 the Banking Group's impairment charge to the income statement decreased by $224 million to $358 million which was primarily related to the absence of the two large real estate and manufacturing loan losses experienced during 2009. The commercial property market, in particular residential apartment development properties, continue to face the most stress due to falling asset prices. As the Banking Group continued to review its provisioning processes by further utilising risk estimates in response to the economic conditions prevalent in New Zealand, the Banking Group increased the factors it uses to determine future impairments to improve the consumer loan portfolio provisioning coverage ratio, resulting in an increase of $60 million to the provision. In view of the uncertainties surrounding the extent of the financial impact on customers from the Canterbury earthquake, an additional economic overlay of $10 million was also raised in September 2010.

During 2009, the Banking Group's impairment charge to the income statement increased by $433 million to $582 million, primarily related to impairments on two large real estate and manufacturing assets as well as further deterioration across the wider business portfolio. The commercial property market, in particular residential apartment development properties, faced the most stress due to falling asset prices. In response to the economic conditions, the Bank increased the factors it uses to determine future impairments to improve the Business loan portfolio provisioning coverage ratio, resulting in an increase of $47 million to the provision. The increased provision in 2008 reflected the recessionary environment in New Zealand which commenced in the quarter ended 31 March 2008.

Review of operations (continued)

Allocation of the allowance for loan losses

The following table provides a breakdown of the allocation of the allowance for loan losses as at 30 September 2010, 2009, 2008 and 2007.

	The Banking Group					
	30 September 2010			30 September 2009		
	As a Percentage of Total Provision For Impairment $m	**Percentage of Loans In Each Category To Total Gross Charges**	**Loans**	As a Percentage of Total Provision For Impairment $m	Percentage of Loans In Each Category To Total Gross Charges	Loans
Individually assessed provisions by loan category						
Overdrafts	**29**	**3.83**	**1.98**	27	4.87	2.17
Credit card outstandings	**-**	**-**	**2.46**	-	-	2.43
Money market loans	**-**	**-**	**1.16**	-	-	1.18
Term loans:						
Housing	**80**	**10.55**	**67.47**	66	11.89	66.92
Non-housing	**188**	**24.80**	**26.37**	53	9.55	26.67
Other	**4**	**0.53**	**0.56**	4	0.72	0.64
Total individually assessed provisions	**301**	**39.71**	**N/A**	150	27.03	N/A
Total collectively assessed provisions	**457**	**60.29**	**N/A**	405	72.97	N/A
Total provisions for impairment charges	**758**	**100.00**	**100.00**	555	100.00	100.00

	The Banking Group					
	30 September 2008			30 September 2007		
	As a Percentage of Total Provision For Impairment $m	Percentage of Loans In Each Category To Total Gross Charges	Loans	As a Percentage of Total Provision For Impairment $m	Percentage of Loans In Each Category To Total Gross Charges	Loans
Individually assessed provisions by loan category						
Overdrafts	3	0.93	2.42	1	0.45	2.50
Credit card outstandings	-	-	2.44	-	-	2.48
Money market loans	-	-	1.26	-	-	1.58
Term loans:						
Housing	34	10.56	66.58	15	6.82	67.80
Non-housing	27	8.39	26.76	10	4.55	25.21
Other	1	0.31	0.54	-	-	0.43
Total individually assessed provisions	65	20.19	N/A	26	11.82	N/A
Total collectively assessed provisions	257	79.81	N/A	194	88.18	N/A
Total provisions for impairment charges	322	100.00	100.00	220	100.00	100.00

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 year ended 30 September 2010 and except for the matters related to outsourcing referred to after the conditions of registration on page 7 and the application of systems for monitoring and controlling adequately the concentration of credit exposures to non-connected individual bank counterparties referred to in Note 39:

(a) 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

Philip Matthew Coffey

George Frazis

Christopher John David Moller

Harold Maffey Price

Ralph Graham Waters

Dated this 24th November 2010

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Income statements for the year ended 30 September

	Note	The Banking Group Year Ended 30 September 2010 $m	The Banking Group Year Ended 30 September 2009 $m	The Bank Year Ended 30 September 2010 $m	The Bank Year Ended 30 September 2009 $m
Interest income	2	**3,501**	3,988	**3,480**	3,964
Interest expense	2	**(2,337)**	(2,672)	**(2,344)**	(2,672)
Net interest income		**1,164**	1,316	**1,136**	1,292
Non-interest income:					
Fees and commissions	3	**287**	346	**284**	341
Gains on ineffective hedges	3	**3**	1	**3**	1
Other non-interest income	3	**1**	16	**(1)**	62
Total non-interest income		**291**	363	**286**	404
Net operating income		**1,455**	1,679	**1,422**	1,696
Operating expenses	4	**(704)**	(708)	**(700)**	(701)
Impairment charges on loans	6	**(334)**	(620)	**(324)**	(612)
Operating profit		**417**	351	**398**	383
Share of profit of associate accounted for using equity method		**1**	-	**-**	-
Profit before income tax expense		**418**	351	**398**	383
Income tax expense	7	**(132)**	(103)	**(126)**	(98)
Profit after income tax expense		**286**	248	**272**	285
Profit after income tax expense attributable to:					
Owners of the Banking Group		**283**	245	**272**	285
Non-controlling interests		**3**	3	**-**	-
		286	248	**272**	285

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

Statements of comprehensive income for the year ended 30 September

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Profit after income tax expense	**286**	248	**272**	285
Other comprehensive income:				
Net unrealised gains from changes in fair value of available-for-sale securities	**7**	2	**7**	2
Cash flow hedges:				
Net gains/(losses) from changes in fair value of cash flow hedges	**16**	(15)	**16**	(15)
Transferred to the income statement	**6**	(3)	**6**	(3)
Actuarial (losses)/gains on employee defined benefit superannuation schemes	**(27)**	30	**(27)**	30
Income tax relating to components of other comprehensive income[1]	**-**	(5)	**-**	(5)
Other comprehensive income net of tax	**2**	9	**2**	9
Total comprehensive income	**288**	257	**274**	294
Total comprehensive income attributable to:				
Owners of the Banking Group	**285**	254	**274**	294
Non-controlling interests	**3**	3	**-**	-
	288	257	**274**	294

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

Tax effects relating to each component of other comprehensive income

	The Banking Group			The Bank		
	Before Tax Amount $m	**Tax (Expense)/ Benefit $m**	**Net of Tax Amount $m**	**Before Tax Amount $m**	**Tax (Expense)/ Benefit $m**	**Net of Tax Amount $m**
For the year ended 30 September 2010						
Net unrealised gains from changes in fair value of available-for-sale securities	**7**	**-**	**7**	**7**	**-**	**7**
Cash flow hedges:						
Net gains from changes in fair value of cash flow hedges	**16**	**(6)**	**10**	**16**	**(6)**	**10**
Transferred to the income statement	**6**	**(2)**	**4**	**6**	**(2)**	**4**
Actuarial losses on employee defined benefit superannuation schemes	**(27)**	**8**	**(19)**	**(27)**	**8**	**(19)**
Other comprehensive income	**2**	**-**	**2**	**2**	**-**	**2**
For the year ended 30 September 2009						
Net unrealised gains from changes in fair value of available-for-sale securities	2	-	2	2	-	2
Cash flow hedges:						
Net losses from changes in fair value of cash flow hedges	(15)	5	(10)	(15)	5	(10)
Transferred to the income statement	(3)	1	(2)	(3)	1	(2)
Actuarial gains on employee defined benefit superannuation schemes	30	(11)	19	30	(11)	19
Other comprehensive income	14	(5)	9	14	(5)	9

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

Statements of changes in equity for the year ended 30 September

	The Banking Group						
	Share Capital $m	Retained Profits $m	Available-for-sale Securities Reserve $m	Cash Flow Hedge Reserve $m	Total before Non-controlling Interests $m	Non-controlling Interests $m	Total $m
As at 1 October 2008	4,550	344	16	(3)	4,907	8	4,915
Year ended 30 September 2009							
Profit after income tax expense	-	245	-	-	245	3	248
Other comprehensive income/(expense)	-	19	2	(12)	9	-	9
Total comprehensive income/(expense) for the year ended 30 September 2009	-	264	2	(12)	254	3	257
Transaction with owners:							
Ordinary share capital issued	220	-	-	-	220	-	220
Preference share capital redeemed	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on ordinary shares	-	(220)	-	-	(220)	(4)	(224)
Dividends paid on preference shares	-	(104)	-	-	(104)	-	(104)
As at 30 September 2009	3,470	284	18	(15)	3,757	7	3,764
Year ended 30 September 2010							
Profit after income tax expense	**-**	**283**	**-**	**-**	**283**	**3**	**286**
Other comprehensive income	**-**	**(19)**	**7**	**14**	**2**	**-**	**2**
Total comprehensive income for the year ended 30 September 2010	**-**	**264**	**7**	**14**	**285**	**3**	**288**
Transaction with owners:							
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
As at 30 September 2010	**3,470**	**548**	**25**	**(1)**	**4,042**	**6**	**4,048**

	The Bank				
	Share Capital $m	Retained Profits $m	Available-for-sale Securities Reserve $m	Cash Flow Hedge Reserve $m	Total $m
As at 1 October 2008	4,550	269	16	(3)	4,832
Year ended 30 September 2009					
Profit after income tax expense	-	285	-	-	285
Other comprehensive income/(expense)	-	19	2	(12)	9
Total comprehensive income/(expense) for the year ended 30 September 2009	-	304	2	(12)	294
Transaction with owners:					
Ordinary share capital issued	220	-	-	-	220
Preference share capital redeemed	(1,300)	-	-	-	(1,300)
Dividends paid on ordinary shares	-	(220)	-	-	(220)
Dividends paid on preference shares	-	(104)	-	-	(104)
As at 30 September 2009	3,470	249	18	(15)	3,722
Year ended 30 September 2010					
Profit after income tax expense	**-**	**272**	**-**	**-**	**272**
Other comprehensive income	**-**	**(19)**	**7**	**14**	**2**
Total comprehensive income for the year ended 30 September 2010	**-**	**253**	**7**	**14**	**274**
As at 30 September 2010	**3,470**	**502**	**25**	**(1)**	**3,996**

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

Balance sheets as at 30 September

	Note	The Banking Group 2010 $m	The Banking Group 2009 $m	The Bank 2010 $m	The Bank 2009 $m
Assets					
Cash and balances with central banks		**522**	213	**522**	212
Due from other financial institutions	9	**3**	3	-	-
Derivative financial instruments	27	**17**	22	**17**	22
Trading securities and other financial assets designated at fair value	10	**2,587**	4,421	**2,587**	4,421
Available-for-sale securities	11	**44**	37	**44**	37
Loans	12, 13	**50,034**	48,174	**49,875**	48,015
Due from related entities	26	**830**	576	**8,331**	8,129
Current tax assets		-	10	-	19
Investments in controlled entities		-	-	**281**	281
Investment in associate	26	**48**	48	-	-
Goodwill and other intangible assets	14	**567**	575	**567**	575
Property, plant and equipment	15	**127**	92	**19**	9
Deferred tax assets	16	**257**	196	**241**	183
Other assets	17	**143**	142	**142**	139
Total assets		**55,179**	54,509	**62,626**	62,042
Liabilities					
Deposits at fair value	18	**1,990**	3,648	**1,990**	3,648
Deposits at amortised cost	18	**30,476**	28,847	**30,159**	28,831
Trading liabilities and other financial liabilities designated at fair value	19	-	1,885	-	1,885
Debt issues	20	**15,439**	12,369	**2,182**	2,203
Current tax liabilities		**14**	-	**10**	-
Provisions	21	**73**	76	**73**	76
Other liabilities	22	**541**	524	**467**	471
Total liabilities excluding perpetual subordinated notes and due to related entities		**48,533**	47,349	**34,881**	37,114
Perpetual subordinated notes	23	**970**	970	**970**	970
Total liabilities excluding due to related entities		**49,503**	48,319	**35,851**	38,084
Due to related entities	26	**1,628**	2,426	**22,779**	20,236
Total liabilities		**51,131**	50,745	**58,630**	58,320
Net assets		**4,048**	3,764	**3,996**	3,722
Equity					
Share capital	25	**3,470**	3,470	**3,470**	3,470
Retained profits		**548**	284	**502**	249
Available-for-sale securities reserve		**25**	18	**25**	18
Cash flow hedge reserve		**(1)**	(15)	**(1)**	(15)
Total equity attributable to owners of the Banking Group		**4,042**	3,757	**3,996**	3,722
Non-controlling interests		**6**	7	-	-
Total equity		**4,048**	3,764	**3,996**	3,722
Interest earning and discount bearing assets		**54,051**	53,673	**61,347**	61,022
Interest and discount bearing liabilities		**46,978**	46,224	**54,463**	53,767

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

Statements of cash flows for the year ended 30 September

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Cash flows from operating activities				
Interest income received	**3,499**	4,031	**3,478**	4,006
Interest expense paid	**(2,306)**	(2,847)	**(2,330)**	(2,791)
Non-interest income received	**306**	356	**299**	356
Net decrease/(increase) in trading securities and other financial assets designated at fair value	**1,834**	(2,448)	**1,834**	(2,448)
Net (decrease)/increase in trading liabilities and other financial liabilities designated at fair value	**(1,880)**	1,885	**(1,880)**	1,885
Operating expenses paid	**(629)**	(647)	**(646)**	(658)
Income tax paid	**(125)**	(190)	**(122)**	(187)
Net cash provided by operating activities	**699**	140	**633**	163
Cash flows from investing activities				
Net loans advanced to customers	**(2,200)**	(1,999)	**(2,190)**	(2,010)
Net (increase)/decrease in due from related entities	**(242)**	1,696	**(182)**	(5,842)
Net increase in other assets	**(8)**	-	**(9)**	-
Purchase of capitalised computer software	**(35)**	(44)	**(35)**	(44)
Purchase of property, plant and equipment	**(59)**	(38)	**(16)**	(4)
Proceeds from disposal of property, plant and equipment	**1**	5	**1**	4
Net cash used in investing activities	**(2,543)**	(380)	**(2,431)**	(7,896)
Cash flows from financing activities				
Redemption of preference share capital	**-**	(1,300)	**-**	(1,300)
Net (decrease)/increase in deposits	**(29)**	268	**(330)**	252
Net proceeds from/(payment of) debt issues	**3,070**	1,267	**(21)**	621
Net (decrease)/increase in due to related entities	**(834)**	174	**2,508**	8,327
Net (decrease)/increase in other liabilities	**(50)**	42	**(49)**	39
Dividends paid on ordinary shares	**(4)**	(4)	**-**	-
Dividends paid on preference shares	**-**	(104)	**-**	(104)
Net cash provided by financing activities	**2,153**	343	**2,108**	7,835
Net increase in cash and cash equivalents	**309**	103	**310**	102
Cash and cash equivalents at beginning of the year	**216**	113	**212**	110
Cash and cash equivalents at end of the year	**525**	216	**522**	212
Cash and cash equivalents at end of the year comprise:				
Cash and balances with central banks	**522**	213	**522**	212
Due from other financial institutions – at call	**3**	3	**-**	-
	525	216	**522**	212
Reconciliation of profit after income tax expense to net cash flows provided by operating activities				
Profit after income tax expense	**286**	248	**272**	285
Adjustments:				
Software amortisation costs	**43**	45	**43**	45
Impairment charges on intangible assets	**-**	3	**-**	3
Impairment charges on loans	**334**	620	**324**	612
Depreciation on property, plant and equipment	**23**	20	**5**	4
Gain on disposal of property, plant and equipment	**-**	(3)	**-**	(2)
Share-based payments	**2**	3	**2**	3
Movement in accrued assets	**7**	41	**6**	37
Movement in investments in related entities	**-**	-	**-**	(43)
Movement in accrued liabilities and provisions	**43**	(186)	**21**	(128)
Movement in current and deferred tax	**7**	(78)	**6**	(80)
Movement in trading securities and other financial assets designated at fair value	**1,834**	(2,448)	**1,834**	(2,448)
Movement in trading liabilities and other financial liabilities designated at fair value	**(1,885)**	1,885	**(1,885)**	1,885
Movement in derivative financial instruments	**5**	(10)	**5**	(10)
Net cash flows provided by operating activities	**699**	140	**633**	163

The accompanying notes (numbered 1 to 40) 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 have been prepared and presented in accordance with the Financial Reporting Act 1993, the Order and the Reserve Bank Act. The Bank's financial statements are for Westpac New Zealand Limited as a separate entity and the consolidated financial statements are for the Westpac New Zealand Limited Group which includes the Bank and its controlled entities.

These financial statements have also been prepared in accordance with NZ GAAP, applicable NZ IFRS and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with IFRS, as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board on 24 November 2010. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2009, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in Note 1.3 Changes in accounting policies.

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 (including special purpose entities) controlled by the Bank and the results of those 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 are de-consolidated from the date on which control ceases.

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

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

Non-controlling interests are stated at the 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. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Foreign currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the '**functional currency**'). The financial statements of the Bank and the Banking Group are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing 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, or those classified as available-for-sale securities, is recognised in the income statement using the effective interest method. Interest income for instruments measured at fair value through profit or loss is also recognised 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 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 based on the net carrying value of the impaired loan after giving effect to any impairment losses. This rate is also used to discount the future cash flows for the purpose of measuring the impairment charges. For loans that have been impaired, this method results in cash receipts being apportioned between interest and principal.

Fee and commission income

Fees and commissions are generally recognised on an accruals 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 recognised as an adjustment to the effective interest rate on the loan.

Gain or loss on sale of property, plant and equipment

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

Note 1 Statement of accounting policies (continued)

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities is recognised in the income statement for all financial liabilities at amortised cost using the effective interest method. Interest expense relating to instruments classified as fair value through profit or loss, including trading liabilities, is also recognised 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 paid are recognised in the income statement over the period in which the related service is consumed.

Share-based compensation

Certain employees are entitled to participate in option and share ownership schemes granted by the Ultimate Parent Bank.

The fair value of performance options, performance share rights and unhurdled 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, performance share right or unhurdled share right.

The fair value of performance options, performance share rights and unhurdled share rights is estimated at the 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 performance options, performance share rights and unhurdled share rights excludes the impact of any non-market vesting conditions such as participants' continued employment with the Banking Group. The non-market vesting conditions are included in assumptions used when determining the number of performance options, performance share rights and unhurdled 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.

Taxation

Income tax

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

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates that have been enacted or substantively enacted as at the balance date, and any adjustment to tax payable in respect of previous reporting 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 the balance date that are expected to apply when the liability is settled or the asset is realised.

Current and deferred taxes attributable to amounts recognised directly in other comprehensive income are also recognised directly in other comprehensive income.

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.

For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the same taxable entity or group of entities in the Banking Group.

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. In these circumstances, the GST is recognised as part of the expense or the cost of the asset.

Business combinations

The acquisition method of accounting is used to account for business combinations. Consideration transferred is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity; other acquisition-related transaction costs are recognised as an expense in the income statement when they are incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Goodwill is recorded as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

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.

Note 1 Statement of accounting policies (continued)

Assets

Financial assets

The Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale securities and loans and receivables. 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 principally for the purpose of selling it in the near term, if it is part of a portfolio of identified financial assets 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.
- ***Available-for-sale securities***
  Available-for-sale securities are 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 and receivables.
- ***Loans and receivables***
  Loans and receivables 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.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on trade-date, being the date on which the Banking Group commits to purchase or sell the asset. Loans and receivables 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 at fair value through profit or loss are subsequently carried at fair value. Loans and receivables 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 other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income 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

Due from other financial institutions include loans and settlement account balances due from other financial institutions. They are accounted for as loans and receivables.

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. Derivatives are carried as assets when the fair value is positive.

Trading securities and other financial assets designated at fair value

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 designated at fair value through profit or loss.

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. The accounting treatment for available-for-sale securities is set out above.

Loans

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. 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)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and cannot sell or repledge the asset other than to the transferee; and
- Either the Banking Group has transferred substantially all the risks and rewards of the asset, or the Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Banking Group transfers its right to receive cashflows from an asset or has entered into a pass-through arrangement. In some cases the Banking Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Banking Group has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

Impairment of financial assets

Impaired financial assets include:

- individually impaired assets, which are defined as assets where an individual provision has been raised to cover the expected loss for which full recovery of principal is doubtful; and
- 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.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately as 'past due assets'. Assets that are greater than 90 days past their contractual terms, but not yet impaired, are reported separately as '90 days 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'.

The following accounting policy applies to the impairment of financial assets:

i) 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 assessment 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 assessed. Future cash flows in a group of financial assets that are collectively assessed 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.

Note 1 Statement of accounting policies (continued)

Estimates of changes in future cash flows for groups of assets should reflect and be 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.

ii) Assets carried at fair value

The Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Subsequent reversals of impairment charges on equity instruments are not recognised in the income statement.

Due from related entities

This amount includes amounts due from controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

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. Investments in related entities are written-down to recoverable amounts, 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. Prior to the revised NZ IFRS 3 *Business Combinations* ('**NZ IFRS 3**'), goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Banking Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised NZ IFRS 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Banking Group's share of net identifiable assets acquired.

All goodwill is considered to have an indefinite useful life.

Goodwill is tested for impairment at least 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 last tested for impairment as at 30 September 2010.

Other intangible assets 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 an operating 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

Other assets

Other assets include accrued interest receivable, trade debtors and prepayments.

Note 1 Statement of accounting policies (continued)

Impairment of non-financial assets

The carrying amount of the Banking Group's non-financial assets, other than deferred tax assets, are reviewed as at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. With the exception of goodwill, for which impairment losses cannot be 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 fair value less costs to sell 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

The Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***
  This category has two sub-categories: financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of identified financial liabilities 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 initial recognition by management. This designation may only be made if the financial liability 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.
- ***Financial liabilities at amortised cost***
  This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition of financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs except where they are designated at fair value, in which case transaction costs are expensed as incurred. 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 when an obligation arises and derecognised when it is discharged.

Deposits at fair value

Deposits at fair value include certificates of deposit and interest bearing deposits. They are classified at fair value through profit or loss as they are managed as part of a trading portfolio.

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. Derivatives are carried as liabilities when the fair value is negative.

Trading liabilities and other financial liabilities designated at fair value

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

Debt issues

Debt issues 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.

Other liabilities

Other liabilities include accrued interest payable, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from defined benefit superannuation scheme.

Perpetual subordinated notes

Perpetual subordinated notes are measured at amortised cost and qualify as Upper Tier Two Capital, as defined by the Reserve Bank for capital adequacy purposes.

Due to related entities

This amount includes amounts due to controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

Note 1 Statement of accounting policies (continued)

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 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 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 to the estimated timing of future cash flows.

Superannuation obligations

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

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation as at the reporting date less the fair value of the scheme'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 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 scheme 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 scheme assets and obligations, and the superannuation cost charged to the income statement.

Actuarial gains and losses related to the defined benefit superannuation scheme are recorded directly in retained earnings. A net deficit within the scheme is recognised and disclosed separately in 'Other liabilities' as a retirement benefit deficit.

Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for 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 reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future payments, where the effect of discounting is material.

Provisions

Non-lending losses

Provision is made for non-lending losses including frauds, litigation costs and the correction of operational issues.

Provision for impairment on credit commitments

Provision is made for incurred losses as a result of the commitment to extend credit.

Provision for restructuring

Provision for restructuring is only recognised when a detailed formal plan has been approved and the restructuring has either commenced or been announced publicly such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. 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.

Note 1 Statement of accounting policies (continued)

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 Banking Group 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. The Banking Group also 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. The method of recognising the fair value gain or loss on 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.

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 other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income 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 other comprehensive income 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 the 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, who reports the assets in its balance sheet. 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 primarily offers finance leases. The Banking Group recognises the assets held under finance leases in the balance sheet as receivables at an amount equal to the net investment in the leases. 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 leases. 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Banking Group has determined that the Bank's executive team is its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

Note 1 Statement of accounting policies (continued)

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 interbank balances arising from the daily Reserve Bank 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.

1.3 Changes in accounting policies

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

- NZ IFRS 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* – The main changes under these standards which apply prospectively to business combinations are that:
  - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
  - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however, remeasurement in the future will be recognised in the income statement;
  - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
  - while control is retained, transactions with minority interests are treated as equity transactions.
- NZ IFRS 7 *Financial Instruments: Disclosures* - The amendments require additional disclosures on fair value and liquidity risk.
- NZ IFRS 8 *Operating Segments* – The new standard further aligns external operating segment reporting with internal reporting to key management personnel.
- NZ IAS 1 *Presentation of Financial Statements* (revised) - The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1 – The amendments require some puttable financial instruments and some financial instruments, which impose on the entity an obligation to deliver to another party a pro rata share of the net assets on liquidation, to be classified as equity.
- NZ IAS 36 *Impairment of Assets* – The amendment requires that the Banking Group and the Bank assess whether any indicators of impairment of the carrying value of the investments in subsidiaries or associates exist upon receipt of dividends from the subsidiaries or associates.

1.4 Future accounting developments

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

- NZ IFRS 9 *Financial Instruments* – If this standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:
  - it replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
  - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
  - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
  - there will be no separation of an embedded derivative where the host is a financial asset;
  - equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however dividends from such investments will continue to be recognised in profit and loss; and
  - if an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of the tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.

  The standard will impact the classification and measurement of the Banking Group's financial assets.
- NZ IFRS 2 *Share-based Payment – Amendment: Group Cash-settled Share-based Payment Transactions* was issued in August 2009 and is applicable to the Banking Group in the 2011 financial year. The amendments clarify the scope of NZ IFRS 2 *Share-based Payment* by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. It is not expected to have a material impact on the Banking Group.
- NZ IAS 1 *Presentation of Financial Statements* – The amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification. It is not expected to have a material impact on the Banking Group.

Note 1 Statement of accounting policies (continued)

- NZ IAS 7 *Statement of Cash Flows* – Amendments to the standard were issued in April 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flow from investing activities. It is not expected to have a material impact on the Banking Group.
- NZ IAS 17 *Leases* – The amendment to the standard was issued in April 2009 and is applicable to the Banking Group in the 2011 financial year. The amendment has removed specific guidance on classifying land as a lease. It is not expected to have a material impact on the Banking Group.
- NZ IAS 24 *Related Party Disclosures* – The revised standard was approved in November 2009 and is applicable to the Banking Group in the 2012 financial year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning. It is not expected to have a material impact on the Banking Group.
- NZ IAS 32 *Financial Instruments: Presentation* – Amendments to the standard were issued in October 2009 and are applicable to the Banking Group in the 2011 financial year. The amendments clarify the classification of rights issues. It is not expected to have a material impact on the Banking Group.

1.5 Critical accounting estimates, judgment and assumptions

The application of the Banking Group's accounting policies necessarily requires the use of estimates, judgment and assumptions. Should different estimates, judgments or assumptions 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 estimates, judgment and assumptions with the Board Audit Committee.

Critical accounting estimates

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

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. 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 technique. Where the fair value is calculated using a valuation technique, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use 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.

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 28.

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 charges 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 original 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.

The provisions for impairment charges on loans are disclosed in Notes 12 and 13 whilst the provision for impairment on credit commitments is disclosed in Note 21.

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 losses 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 judgments are made in this process. Furthermore, judgments 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.

Note 1 Statement of accounting policies (continued)

(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 the 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 amounts arising on the acquisition of businesses. Prior to the revised NZ IFRS 3, goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Banking Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised NZ IFRS 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Banking Group's share of the identifiable net assets acquired.

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to 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 and willing parties. The assumptions applied to determine impairment along with the carrying amount of goodwill, are outlined in Note 14.

Superannuation obligations

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

The actuarial valuation of scheme 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 scheme assets and obligations, and the superannuation cost charged to the income statement. The carrying amount of superannuation defined benefit obligation is disclosed in Note 31.

Provisions (other than loan impairment losses)

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and non-lending losses as disclosed in Note 21. Some of the provisions involve significant judgment 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.

Critical accounting judgments

The judgments, apart from those involving estimations, that management has made in applying the Banking Group's accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as follows:

Income taxes

The Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Banking Group estimates its tax liabilities based on the Banking Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences impact the current and deferred tax provisions in the period when such determinations are made.

Securitisation and the consolidation of special purpose vehicles

The Banking Group sponsors the formation of special purpose vehicles ('**SPV**') in the ordinary course of business, primarily to provide funding and financial services products to its customers. SPVs are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under NZ GAAP, an SPV is consolidated and reported as part of the Banking Group if it is controlled by the parent entity in line with NZ IAS 27 *Consolidated and Separate Financial Statements* or deemed to be controlled in applying New Zealand equivalent to Standing Intrepretations Committee ('**NZ SIC**') 12 *Consolidation – Special Purpose Entities*. The definition of control is based on the substance rather than the legal form. As it can sometimes be difficult to determine whether the Banking Group controls an SPV, management makes judgments about the Banking Group's exposure to the associated risks and rewards, as well as its ability to make operational decisions for the SPV.

Note 2 Net interest income

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Interest income				
Cash and balances with central banks	**7**	13	**7**	13
Trading securities and other financial assets designated at fair value	**117**	148	**117**	148
Loans	**3,330**	3,798	**3,309**	3,774
Impaired assets	**47**	29	**47**	29
Total interest income[1]	**3,501**	3,988	**3,480**	3,964
Interest expense				
Deposits	**1,136**	1,439	**1,126**	1,438
Trading liabilities and other financial liabilities designated at fair value	**19**	83	**19**	83
Debt issues	**384**	362	**184**	132
Related entities (including perpetual subordinated notes)	**794**	784	**1,011**	1,015
Other	**4**	4	**4**	4
Total interest expense[2]	**2,337**	2,672	**2,344**	2,672
Net interest income	**1,164**	1,316	**1,136**	1,292

1 Total interest income for financial assets that are not at fair value through profit or loss is $3,384 million (30 September 2009: $3,840 million) for the Banking Group and $3,363 million (30 September 2009: $3,816 million) for the Bank.

2 Total interest expense for financial liabilities that are not at fair value through profit or loss is $2,074 million (30 September 2009: $2,192 million) for the Banking Group and $2,244 million (30 September 2009: $2,370 million) for the Bank.

Note 3 Non-interest income

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Fees and commissions				
Transaction fees and commissions	**206**	223	**200**	218
Lending fees (loan and risk)	**46**	87	**46**	86
Management fees received from related entities	**2**	3	**4**	5
Insurance commissions received	**16**	17	**16**	17
Other non-risk fee income	**17**	16	**18**	15
Total fees and commissions	**287**	346	**284**	341
Gains on ineffective hedges	**3**	1	**3**	1
Other non-interest income				
Net unrealised (losses)/gains on derivatives held for risk management purposes	**(4)**	9	**(4)**	9
Dividend income	**2**	2	**1**	50
Gains on disposal of property, plant and equipment	**-**	3	**-**	2
Other	**3**	2	**2**	1
Total other non-interest income	**1**	16	**(1)**	62
Total non-interest income	**291**	363	**286**	404

Note 4 Operating expenses

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Salaries and other staff expenses				
Salaries and wages	**311**	298	**310**	298
Employee entitlements	**9**	10	**9**	10
Superannuation costs:				
Defined contribution scheme	**23**	20	**23**	20
Defined benefit scheme (refer to Note 31)	**(1)**	1	**(1)**	1
Share-based payments	**2**	3	**2**	3
Restructuring costs	**-**	1	**-**	1
Other	**10**	12	**10**	11
Total salaries and other staff expenses	**354**	345	**353**	344
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities	**-**	-	**82**	81
Other	**55**	54	**5**	6
Depreciation:				
Leasehold improvements	**13**	9	**1**	-
Furniture and equipment	**10**	11	**4**	4
Equipment repairs and maintenance	**11**	8	**2**	4
Electricity, water and rates	**2**	3	**-**	-
Other	**4**	12	**-**	5
Total equipment and occupancy expenses	**95**	97	**94**	100
Other expenses				
Impairment charges on other intangible assets	**-**	3	**-**	3
Software amortisation costs	**43**	45	**43**	45
Non-lending losses	**5**	2	**5**	2
Consultancy fees and other professional services	**52**	55	**51**	53
Auditors' remuneration (refer to Note 5)	**2**	1	**2**	1
Stationery	**11**	11	**10**	10
Postage and freight	**16**	16	**16**	15
Advertising	**25**	25	**25**	25
Training	**4**	6	**4**	6
Travel	**8**	6	**8**	6
Outsourcing	**74**	78	**74**	78
Related entities – management fees	**1**	4	**1**	-
Other	**14**	14	**14**	13
Total other expenses	**255**	266	**253**	257
Total operating expenses	**704**	708	**700**	701

The Banking Group made donations of $1.114 million during the year ended 30 September 2010 (30 September 2009: $75,000).

Note 5 Auditors' remuneration

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $'000	Year Ended 30 September 2009 $'000	**Year Ended 30 September 2010 $'000**	Year Ended 30 September 2009 $'000
Auditor of the parent entity				
Audit and review of financial report	**1,085**	1,029	**952**	815
Other audit related work[1]	**138**	138	**138**	138
Other assurance services[2]	**501**	43	**501**	-
Total audit and other assurance services	**1,724**	1,210	**1,591**	953
Taxation compliance and advice	**20**	19	**20**	19
Other services	**64**	-	**53**	-
Total non-audit fees	**84**	19	**73**	19
Total remuneration for audit and non-audit services	**1,808**	1,229	**1,664**	972

1 Sarbanes-Oxley reporting to the Ultimate Parent Bank Group.
2 Primarily assurance provided on certain financial information, including the issue of comfort letters in relation to debt issuance programmes.

It is the Banking Group's policy to engage 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.

All amounts disclosed above are GST exclusive.

Note 6 Impairment charges on loans

	The Banking Group				The Bank			
	Year Ended 30 September 2010				**Year Ended 30 September 2010**			
	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 provisions	**38**	**44**	**(30)**	**52**	**31**	**43**	**(30)**	**44**
Individually assessed provisions	**83**	**-**	**172**	**255**	**83**	**-**	**172**	**255**
Bad debt write-off direct to the income statement	**9**	**54**	**6**	**69**	**9**	**51**	**6**	**66**
Interest adjustments	**(5)**	**(18)**	**(19)**	**(42)**	**(5)**	**(17)**	**(19)**	**(41)**
Total impairment charges on loans	**125**	**80**	**129**	**334**	**118**	**77**	**129**	**324**

	The Banking Group				The Bank			
	Year Ended 30 September 2009				Year Ended 30 September 2009			
	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 provisions	12	(1)	137	148	7	-	137	144
Individually assessed provisions	86	-	327	413	86	-	327	413
Bad debt write-off direct to the income statement	7	73	8	88	7	69	8	84
Interest adjustments	(3)	(10)	(16)	(29)	(3)	(10)	(16)	(29)
Total impairment charges on loans	102	62	456	620	97	59	456	612

Note 7 Income tax expense

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Income tax expense				
Current tax:				
Current year	**184**	173	**178**	167
Prior year adjustments	**3**	-	**3**	-
Deferred tax (refer to Note 16):				
Current year – impact of change in tax rate	**6**	-	**5**	-
Current year – other	**(58)**	(68)	**(57)**	(67)
Prior year adjustments	**(3)**	(2)	**(3)**	(2)
Total income tax expense	**132**	103	**126**	98
Profit before income tax expense	**418**	351	**398**	383
Tax calculated at tax rate of 30%	**125**	105	**119**	115
Impact of change in tax rate on deferred tax	**6**	-	**5**	-
Income not subject to tax	**-**	(1)	**-**	(16)
Expenses not deductible for tax purposes	**1**	-	**1**	-
Prior year adjustments	**-**	(2)	**-**	(2)
Other items	**-**	1	**1**	1
Total income tax expense	**132**	103	**126**	98

The balance of the dividend withholding payment account as at 30 September 2010 was nil (30 September 2009: nil) and there was no movement during the year ended 30 September 2010 (30 September 2009: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, which will apply to the Bank and Banking Group from 1 October 2011. Accordingly, the deferred taxes have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse from 1 October 2011 onwards. As a result of this change in tax rate, the Bank and Banking Group have recorded additional deferred tax expense of $5 million and $6 million respectively in the income statement, and nil in other comprehensive income.

Note 8 Imputation credit account

	The Banking Group		The Bank	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	**Year Ended 30 September 2010 $m**	Year Ended 30 September 2009 $m
Balance at beginning of the year	**276**	171	**258**	132
Transfers	**(25)**	67	**(22)**	65
Imputation credits attached to dividends received	**-**	1	**-**	25
Imputation credits attached to dividends paid	**(4)**	(134)	**-**	(133)
Income tax payments	**125**	171	**122**	169
Balance at end of the year	**372**	276	**358**	258

The availability of these imputation credits is contingent on the Ultimate Parent Bank meeting the shareholder continuity rules. As a result of the merger of the Ultimate Parent Bank with St.George Bank Limited during the year ended 30 September 2009, it is possible that credits of approximately $100 million for the Banking Group (including $94 million for the Bank) have been forfeited. The Ultimate Parent Bank Group is currently in discussions with the New Zealand Commissioner of Inland Revenue concerning this issue. If the credits are forfeited there should be no financial impact on the Banking Group.

Note 9 Due from other financial institutions

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Loans and advances to other banks	**3**	3	**-**	-
Total due from other financial institutions	**3**	3	**-**	-
Due from other financial institutions:				
At call	**3**	3	**-**	-
Total due from other financial institutions	**3**	3	**-**	-
Amounts expected to be recovered within 12 months	**3**	3	**-**	-
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total due from other financial institutions	**3**	3	**-**	-

Note 10 Trading securities and other financial assets designated at fair value

	The Banking Group			The Bank		
	2010 $m	2009 $m	2008 $m	**2010 $m**	2009 $m	2008 $m
Trading securities						
Listed:						
NZ Government securities	**1,381**	2,369	-	**1,381**	2,369	-
Total listed securities	**1,381**	2,369	-	**1,381**	2,369	-
Unlisted:						
NZ corporate securities:						
Certificates of deposit	**1,206**	2,052	1,973	**1,206**	2,052	1,973
Total unlisted securities	**1,206**	2,052	1,973	**1,206**	2,052	1,973
Total trading securities	**2,587**	4,421	1,973	**2,587**	4,421	1,973
Other financial assets designated at fair value	**-**	-	-	**-**	-	-
Total trading securities and other financial assets designated at fair value	**2,587**	4,421	1,973	**2,587**	4,421	1,973
Amounts expected to be recovered within 12 months	**2,587**	4,421	1,973	**2,587**	4,421	1,973
Amounts expected to be recovered after 12 months	**-**	-	-	**-**	-	-
Total trading securities and other financial assets designated at fair value	**2,587**	4,421	1,973	**2,587**	4,421	1,973

As at 30 September 2010 no trading securities in the Banking Group and the Bank (30 September 2009: nil, 30 September 2008: nil) were encumbered through repurchase agreements.

As at 30 September 2010 the Banking Group held no tax exempt securities (30 September 2009: nil, 30 September 2008: nil). A tax exempt security is a US security for which the income produced is free from federal, state and local taxes. Most US tax exempt securities come in the form of municipal bonds, which represent obligations of a state, territory or municipality.

Note 10 Trading securities and other financial assets designated at fair value (continued)

Trading securities and other financial assets designated at fair value decreased $1,834 million in the year ended 30 September 2010 due to a $988 million reduction in holdings of government securities (which were used to fund the repayment of maturing certificates of deposit issued) and an $846 million reduction in certificates of deposit held, in accordance with the Reserve Bank's new BS13 liquidity requirements.

Trading securities increased by $2,448 million or 124% in 2009 compared to 2008. This increase included an increase in investment in New Zealand Government bond holdings of $2,369 million resulting from the Banking Group adjusting the composition of its liquid assets portfolio in anticipation of the Reserve Bank's proposed liquidity policy and an increase in retail certificates of deposit of $79 million to meet short-term liquidity requirements.

Maturity profile of trading securities and other financial assets designated at fair value

	The Banking Group					
	1 Year or Less $m	After 1 Year to 5 Years $m	After 5 Years to 10 Years $m	After 10 Years $m	Total $m	Weighted Average Yield %
As at 30 September 2010						
NZ Government securities	**1,381**	-	-	-	**1,381**	**2.95**
Certificates of deposit	**1,206**	-	-	-	**1,206**	**3.12**
Total trading securities and other financial assets designated at fair value	**2,587**	-	-	-	**2,587**	
As at 30 September 2009						
NZ Government securities	2,369	-	-	-	2,369	2.74
Certificates of deposit	2,052	-	-	-	2,052	2.79
Total trading securities and other financial assets designated at fair value	4,421	-	-	-	4,421	
As at 30 September 2008						
Certificates of deposit	1,973	-	-	-	1,973	7.88
Total trading securities and other financial assets designated at fair value	1,973	-	-	-	1,973	

Book value and market value of debt securities > 10% of equity

The Banking Group has total holdings of debt securities from two (30 September 2009: one, 30 September 2008: two) financial institutions, each rated AA by Standard & Poor's, the aggregate book and market value of which was $1,027 million (30 September 2009: $1,237 million, 30 September 2008: $1,567 million). Each of these holdings exceeded 10% of the Banking Group's total equity as at such date.

Note 11 Available-for-sale securities

	The Banking Group			The Bank		
	2010 $m	2009 $m	2008 $m	**2010 $m**	2009 $m	2008 $m
Listed securities						
Overseas public securities	**44**	37	35	**44**	37	35
Total available-for-sale securities	**44**	37	35	**44**	37	35
Amounts expected to be recovered within 12 months	-	-	-	-	-	-
Amounts expected to be recovered after 12 months	**44**	37	35	**44**	37	35
Total available-for-sale securities	**44**	37	35	**44**	37	35
Balance at beginning of the year	**37**	35	-	**37**	35	-
Additions	-	-	48	-	-	48
Disposals	-	-	(29)	-	-	(29)
Net unrealised gains from changes in fair value	**7**	2	16	**7**	2	16
Balance at end of the year	**44**	37	35	**44**	37	35

As at 30 September 2010 no available-for-sale securities were pledged as collateral for Banking Group liabilities (30 September 2009: nil, 30 September 2008: nil).

Note 12 Loans

	The Banking Group				The Bank			
	2010 $m	2009 $m	2008 $m	2007 $m	**2010 $m**	2009 $m	2008 $m	2007 $m
Overdrafts	**1,003**	1,056	1,140	1,067	**1,003**	1,056	1,140	1,067
Credit card outstandings	**1,250**	1,182	1,149	1,062	**1,176**	1,113	1,079	993
Money market loans	**590**	574	594	677	**590**	574	594	677
Term loans:								
Housing	**34,249**	32,587	31,353	28,989	**34,171**	32,494	31,241	28,853
Non-housing	**13,386**	12,985	12,603	10,778	**13,375**	12,985	12,603	10,778
Other	**285**	310	256	186	**285**	310	256	186
Total gross loans	**50,763**	48,694	47,095	42,759	**50,600**	48,532	46,913	42,554
Provisions for impairment charges on loans	**(729)**	(520)	(300)	(200)	**(725)**	(517)	(296)	(197)
Total net loans	**50,034**	48,174	46,795	42,559	**49,875**	48,015	46,617	42,357
Amounts expected to be recovered within 12 months	**7,087**	6,936	6,762	5,338	**6,928**	6,924	6,645	5,201
Amounts expected to be recovered after 12 months	**42,947**	41,238	40,033	37,221	**42,947**	41,091	39,972	37,156
Total net loans	**50,034**	48,174	46,795	42,559	**49,875**	48,015	46,617	42,357

The repurchase cash amount of the Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities as at 30 September 2010 was nil (30 September 2009: $1,814 million, 30 September 2008: nil, 30 September 2007: nil) with no underlying securities (30 September 2009: $2,253 million, 30 September 2008: nil, 30 September 2007: nil) provided under the arrangement.

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

The Banking Group has no loans or other receivables in New Zealand dollars or other foreign currencies outstanding to borrowers in foreign countries, referred to as cross-border outstandings, that equal or exceed 0.75% of the Banking Group's total assets as at 30 September 2010 (30 September 2009: nil, 30 September 2008: nil, 30 September 2007: nil).

Maturities of loans and sensitivities of loans to changes in interest rates

The following table shows the Banking Group's contractual maturity distribution of all loans.

	The Banking Group			
	1 Year or Less $m	**1 Year to 5 Years $m**	**After 5 Years $m**	**Total $m**
As at 30 September 2010				
Overdrafts	**895**	**95**	**13**	**1,003**
Credit card outstandings	**1,238**	**12**	-	**1,250**
Money market loans	**386**	**204**	-	**590**
Term loans:				
Housing	**479**	**862**	**32,908**	**34,249**
Non-housing	**4,517**	**6,430**	**2,439**	**13,386**
Other	**153**	**132**	-	**285**
Total gross loans	**7,668**	**7,735**	**35,360**	**50,763**
Provisions for impairment charges on loans	**(581)**	**(80)**	**(68)**	**(729)**
Total net loans	**7,087**	**7,655**	**35,292**	**50,034**
As at 30 September 2009				
Overdrafts	950	94	12	1,056
Credit card outstandings	1,169	13	-	1,182
Money market loans	387	187	-	574
Term loans:				
Housing	723	811	31,053	32,587
Non-housing	3,801	6,535	2,649	12,985
Other	236	74	-	310
Total gross loans	7,266	7,714	33,714	48,694
Provisions for impairment charges on loans	(330)	(53)	(137)	(520)
Total net loans	6,936	7,661	33,577	48,174

Note 12 Loans (continued)

The following table shows the interest rate segmentation of gross loans where the principal is contractually due after one year from balance date.

	The Banking Group					
	2010			2009		
	Loans at Variable Interest Rates $m	**Loans at Fixed Interest Rates[1] $m**	**Total $m**	Loans at Variable Interest Rates $m	Loans at Fixed Interest Rates[1] $m	Total $m
Interest rate segmentation of gross loans maturing after one year:						
NZ market	**12,496**	**30,599**	**43,095**	9,019	32,409	41,428
US market	**43,095**	**-**	**43,095**	41,428	-	41,428

1 In the US market 'loans at fixed interest rates' refers to loans with interest rates that are fixed for the entire term of the loans (i.e. a 25-year fixed loan). In the New Zealand market 'loans at fixed interest rates' refers to loans that are fixed for all or for a portion of the term of the loans (i.e. a six-month fixed loan, five-year fixed loan, etc). The above table therefore discloses the required interest rate segmentation according to the conventions in both the US and New Zealand markets.

Loan concentrations

The following table provides an analysis of the concentration of the Banking Group's loan portfolio by borrower category. The relevant categorisation for the Banking Group is by industry and economic sector as these borrowers are engaged in similar activities and would be similarly impacted by economic conditions.

	The Banking Group	
Analysis of loans by industry and economic sector	**2010 $m**	2009 $m
Accommodation, cafes and restaurants	**533**	576
Agriculture, forestry and fishing	**5,705**	5,355
Construction	**1,357**	1,377
Finance and insurance	**873**	832
Government, administration and defence	**527**	318
Manufacturing	**1,291**	1,399
Mining	**76**	59
Property	**8,720**	8,635
Property services and business services	**1,505**	1,367
Services	**2,317**	2,309
Trade	**2,352**	2,134
Transport and storage	**773**	684
Utilities	**222**	168
Retail lending	**24,416**	23,399
Other	**96**	82
Total gross loans	**50,763**	48,694
Provisions for impairment on loans	**(729)**	(520)
Total net loans	**50,034**	48,174

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans

	The Banking Group				The Bank			
	2010				2010			
	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
Neither past due nor impaired								
Strong	-	-	2,421	2,421	-	-	2,421	2,421
Good/Satisfactory	32,739	1,565	9,480	43,784	32,661	1,499	9,480	43,640
Weak	-	-	1,701	1,701	-	-	1,690	1,690
Total neither past due nor impaired	32,739	1,565	13,602	47,906	32,661	1,499	13,591	47,751
Past due assets 1 to 89 days[1]								
Balance at beginning of the year	850	131	422	1,403	850	124	422	1,396
Additions	5,981	835	3,146	9,962	5,981	788	3,146	9,915
Deletions	(5,720)	(829)	(3,098)	(9,647)	(5,720)	(782)	(3,098)	(9,600)
Balance at end of the year	1,111	137	470	1,718	1,111	130	470	1,711
Past due assets 90+ days[1,2]								
Balance at beginning of the year	88	26	232	346	88	25	232	345
Additions	296	74	551	921	296	70	551	917
Deletions	(287)	(80)	(503)	(870)	(287)	(76)	(503)	(866)
Balance at end of the year	97	20	280	397	97	19	280	396
Total past due assets[1]	1,208	157	750	2,115	1,208	149	750	2,107
Individually impaired assets[2]								
Balance at beginning of the year	351	-	319	670	351	-	319	670
Additions	383	-	446	829	383	-	446	829
Amounts written off	(78)	-	(50)	(128)	(78)	-	(50)	(128)
Returned to performing or repaid	(354)	-	(275)	(629)	(354)	-	(275)	(629)
Balance at end of the year	302	-	440	742	302	-	440	742
Restructured assets[2]								
Balance at beginning of the year	-	-	1	1	-	-	1	1
Additions	-	-	-	-	-	-	-	-
Deletions	-	-	(1)	(1)	-	-	(1)	(1)
Balance at end of the year	-	-	-	-	-	-	-	-
Total impaired assets	302	-	440	742	302	-	440	742
Total gross loans[3,4]	34,249	1,722	14,792	50,763	34,171	1,648	14,781	50,600
Individually assessed provisions								
Balance at beginning of the year	66	-	84	150	66	-	84	150
Impairment charges on loans:								
New provisions	105	-	201	306	105	-	201	306
Recoveries	(22)	-	(29)	(51)	(22)	-	(29)	(51)
Impairment charges on loans written off	(69)	-	(35)	(104)	(69)	-	(35)	(104)
Balance at end of the year	80	-	221	301	80	-	221	301
Collectively assessed provisions								
Balance at beginning of the year	42	60	303	405	42	57	303	402
Impairment charges on loans	38	44	(30)	52	31	43	(30)	44
Provisions on securitised loans	-	-	-	-	7	-	-	7
Balance at end of the year	80	104	273	457	80	100	273	453
Total provision for impairment charges and credit commitments	160	104	494	758	160	100	494	754
Less provision for credit commitments (refer to Note 21)	-	-	(29)	(29)	-	-	(29)	(29)
Total impairment provisions on loans	160	104	465	729	160	100	465	725
Total net loans	34,089	1,618	14,327	50,034	34,011	1,548	14,316	49,875

As at 30 September 2010, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual[5], past due, restructured or potential problem loans[5], if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.
2 The Banking Group and the Bank do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.
3 The Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.
4 The Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.
5 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US SEC reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans (continued)

	The Banking Group				The Bank			
	2009				2009			
	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
Neither past due nor impaired								
Strong	-	-	2,402	2,402	-	-	2,402	2,402
Good/Satisfactory	31,298	1,487	9,178	41,963	31,205	1,426	9,178	41,809
Weak	-	-	1,909	1,909	-	-	1,909	1,909
Total neither past due nor impaired	31,298	1,487	13,489	46,274	31,205	1,426	13,489	46,120
Past due assets 1 to 89 days[1]								
Balance at beginning of the year	1,394	156	589	2,139	1,394	150	589	2,133
Additions	6,947	865	3,704	11,516	6,947	819	3,704	11,470
Deletions	(7,491)	(890)	(3,871)	(12,252)	(7,491)	(845)	(3,871)	(12,207)
Balance at end of the year	850	131	422	1,403	850	124	422	1,396
Past due assets 90+ days[1,2]								
Balance at beginning of the year	75	25	121	221	75	24	121	220
Additions	361	94	560	1,015	361	89	560	1,010
Deletions	(348)	(93)	(449)	(890)	(348)	(88)	(449)	(885)
Balance at end of the year	88	26	232	346	88	25	232	345
Total past due assets[1]	938	157	654	1,749	938	149	654	1,741
Individually impaired assets[2]								
Balance at beginning of the year	190	-	88	278	190	-	88	278
Additions	486	-	601	1,087	486	-	601	1,087
Amounts written off	(64)	-	(290)	(354)	(64)	-	(290)	(354)
Returned to performing or repaid	(261)	-	(80)	(341)	(261)	-	(80)	(341)
Balance at end of the year	351	-	319	670	351	-	319	670
Restructured assets[2]								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Additions	-	-	1	1	-	-	1	1
Deletions	-	-	-	-	-	-	-	-
Balance at end of the year	-	-	1	1	-	-	1	1
Total impaired assets	351	-	320	671	351	-	320	671
Total gross loans[3,4]	32,587	1,644	14,463	48,694	32,494	1,575	14,463	48,532
Individually assessed provisions								
Balance at beginning of the year	24	-	41	65	24	-	41	65
Impairment charges on loans:								
New provisions	102	-	332	434	102	-	332	434
Recoveries	(16)	-	(5)	(21)	(16)	-	(5)	(21)
Impairment charges on loans written off	(44)	-	(284)	(328)	(44)	-	(284)	(328)
Balance at end of the year	66	-	84	150	66	-	84	150
Collectively assessed provisions								
Balance at beginning of the year	30	61	166	257	30	57	166	253
Impairment charges on loans	12	(1)	137	148	7	-	137	144
Provisions on securitised loans	-	-	-	-	5	-	-	5
Balance at end of the year	42	60	303	405	42	57	303	402
Total provision for impairment charges and credit commitments	108	60	387	555	108	57	387	552
Less provision for credit commitments (refer to Note 21)	-	-	(35)	(35)	-	-	(35)	(35)
Total impairment provisions on loans	108	60	352	520	108	57	352	517
Total net loans	32,479	1,584	14,111	48,174	32,386	1,518	14,111	48,015

As at 30 September 2009, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual[5], past due, restructured or potential problem loans[5], if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.
2 The Banking Group and the Bank do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.
3 The Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.
4 The Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.
5 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for SEC reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Note 14 Goodwill and other intangible assets

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Goodwill				
Cost	**477**	477	**477**	477
Accumulated impairment	**-**	-	**-**	-
Net carrying amount of goodwill	**477**	477	**477**	477
Computer software				
Cost	**272**	237	**272**	237
Accumulated amortisation and impairment	**(182)**	(139)	**(182)**	(139)
Net carrying amount of computer software	**90**	98	**90**	98
Total goodwill and other intangible assets	**567**	575	**567**	575

	The Banking Group			The Bank		
	Goodwill $m	**Computer Software $m**	**Total $m**	**Goodwill $m**	**Computer Software $m**	**Total $m**
Balance as at 1 October 2009	**477**	**98**	**575**	**477**	**98**	**575**
Additions	**-**	**35**	**35**	**-**	**35**	**35**
Amortisation	**-**	**(43)**	**(43)**	**-**	**(43)**	**(43)**
Net carrying amount as at 30 September 2010	**477**	**90**	**567**	**477**	**90**	**567**
Balance as at 1 October 2008	477	102	579	477	102	579
Additions	-	44	44	-	44	44
Amortisation	-	(45)	(45)	-	(45)	(45)
Impairment	-	(3)	(3)	-	(3)	(3)
Net carrying amount as at 30 September 2009	477	98	575	477	98	575

Goodwill is allocated to and tested at least annually for impairment as a part of its identified CGUs. The operating segment of Retail Banking is the CGU to which the goodwill has been allocated.

The recoverable amount of the CGU is determined annually based on value-in-use calculations. These calculations were last performed at 30 September 2010. These calculations used discounted cash flow projections based on an approved three-year strategic business plan. While the strategic business plan assumes certain economic conditions, the forecast is not reliant on one particular assumption. These business forecasts applied by management are considered appropriate as they are based on past experience and are consistent with observable current market information. The growth rates after 2013 are assumed to be zero for all CGUs for the purpose of goodwill impairment testing. The discount rate used is the before tax equivalent of the Banking Group's cost of capital of 15.7% as at 30 September 2010 (30 September 2009: 15.7%).

A reasonably possible change in these key assumptions would not cause the CGU's carrying amount to exceed its recoverable amount.

Note 15 Property, plant and equipment

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Leasehold improvements				
Cost	**198**	163	**1**	1
Accumulated depreciation and impairment	**(104)**	(96)	**(1)**	-
Net carrying amount of leasehold improvements	**94**	67	**-**	1
Furniture and equipment				
Cost	**183**	187	**87**	94
Accumulated depreciation and impairment	**(150)**	(162)	**(68)**	(86)
Net carrying amount of furniture and equipment	**33**	25	**19**	8
Total property, plant and equipment	**127**	92	**19**	9

Note 15 Property, plant and equipment (continued)

	The Banking Group			The Bank		
	Leasehold Improvements $m	Furniture and Equipment $m	Total $m	Leasehold Improvements $m	Furniture and Equipment $m	Total $m
Balance as at 1 October 2009	**67**	**25**	**92**	**1**	**8**	**9**
Additions	**40**	**19**	**59**	**-**	**16**	**16**
Disposals	**-**	**(1)**	**(1)**	**-**	**(1)**	**(1)**
Depreciation	**(13)**	**(10)**	**(23)**	**(1)**	**(4)**	**(5)**
Net carrying amount as at 30 September 2010	**94**	**33**	**127**	**-**	**19**	**19**
Balance as at 1 October 2008	45	31	76	-	11	11
Additions	31	7	38	1	3	4
Disposals	-	(2)	(2)	-	(2)	(2)
Depreciation	(9)	(11)	(20)	-	(4)	(4)
Net carrying amount as at 30 September 2009	67	25	92	1	8	9

Property, plant and equipment under construction

Property, plant and equipment includes leasehold improvements in the Banking Group with a carrying value of $28 million (30 September 2009: $26 million) that are under construction.

Note 16 Deferred tax assets and liabilities

Deferred tax assets

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**7**	4	**(4)**	(6)
Provision for impairment charges on loans	**222**	166	**221**	166
Provision for employee entitlements	**25**	19	**25**	19
Other temporary differences	**3**	3	**(1)**	-
Set off of deferred tax liabilities	**-**	4	**-**	4
Balance at end of the year	**257**	196	**241**	183
To be recovered within 12 months	**177**	122	**165**	120
To be recovered after 12 months	**80**	74	**76**	63
Balance at end of the year	**257**	196	**241**	183
Movements				
Balance at beginning of the year	**196**	132	**183**	121
Prior year adjustments	**3**	2	**3**	2
Set off of deferred tax liabilities	**-**	4	**-**	4
Credited to the income statement (refer to Note 7)	**58**	67	**57**	66
Credited/(charged) to equity	**3**	(10)	**3**	(10)
Other temporary differences	**3**	1	**-**	-
Change to corporate tax rate (refer to Note 7)	**(6)**	-	**(5)**	-
Balance at end of the year	**257**	196	**241**	183
The deferred tax charge in the income tax expense comprises the following temporary differences:				
Property, plant and equipment	**3**	-	**2**	(1)
Provision for impairment charges on loans	**56**	69	**55**	69
Provision for employee entitlements	**(2)**	1	**(2)**	(9)
Other temporary differences	**(2)**	(1)	**-**	9
Total deferred tax charge	**55**	69	**55**	68
The deferred tax charge in equity comprises the following temporary differences:				
Cash flow hedges	**(5)**	-	**(5)**	-
Provision for employee entitlements	**8**	(10)	**8**	(10)
Total deferred tax charge	**3**	(10)	**3**	(10)

Note 16 Deferred tax assets and liabilities (continued)

Deferred tax liabilities

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Deferred tax liabilities are attributable to the following:				
Amounts recognised directly in equity:				
Cash flow hedges	-	(4)	-	(4)
Set off of deferred tax assets	-	4	-	4
Balance at end of the year	-	-	-	-
Movements				
Balance at beginning of the year	-	-	-	-
Set off of deferred tax assets	-	4	-	4
Credited to the income statement (refer to Note 7)	-	(1)	-	(1)
Credited to equity	-	(3)	-	(3)
Balance at end of the year	-	-	-	-
The deferred tax charge in the income tax expense comprises the following temporary differences:				
Other temporary differences	-	(1)	-	(1)
Total deferred tax charge	-	(1)	-	(1)
The deferred tax charge in equity comprises the following temporary differences:				
Cash flow hedges	-	(3)	-	(3)
Provision for employee entitlements	-	-	-	-
Total deferred tax charge	-	(3)	-	(3)

As at 30 September 2010, the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (30 September 2009: nil).

Note 17 Other assets

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Accrued interest receivable	**119**	117	**119**	116
Trade debtors and prepayments	**13**	23	**12**	21
Account fees and commissions receivable	**2**	1	**2**	1
Other	**9**	1	**9**	1
Total other assets	**143**	142	**142**	139
Amounts expected to be recovered within 12 months	**143**	142	**142**	139
Amounts expected to be recovered after 12 months	-	-	-	-
Total other assets	**143**	142	**142**	139

Note 18 Deposits

	The Banking Group			The Bank		
	2010 $m	2009 $m	2008 $m	**2010 $m**	2009 $m	2008 $m
Deposits at fair value						
Certificates of deposit	**1,902**	3,468	4,163	**1,902**	3,468	4,163
Term deposits	**88**	180	864	**88**	180	864
Total deposits at fair value	**1,990**	3,648	5,027	**1,990**	3,648	5,027
Deposits at amortised cost						
Non-interest bearing, repayable at call	**2,410**	2,219	2,030	**2,410**	2,219	2,030
Other interest bearing:						
At call	**10,294**	10,619	10,951	**10,294**	10,619	10,951
Term	**17,772**	16,009	14,219	**17,455**	15,993	14,219
Total deposits at amortised cost	**30,476**	28,847	27,200	**30,159**	28,831	27,200
Total deposits	**32,466**	32,495	32,227	**32,149**	32,479	32,227
Amounts expected to be settled within 12 months	**31,531**	30,972	31,849	**31,217**	30,956	31,849
Amounts expected to be settled after 12 months	**935**	1,523	378	**932**	1,523	378
Total deposits	**32,466**	32,495	32,227	**32,149**	32,479	32,227

Note 18 Deposits (continued)

Average deposit balances and average rates paid by type of deposits

	The Banking Group					
	For the Year Ended 30 September					
	2010		2009		2008	
	Average Balance $m	**Average Rate %**	Average Balance $m	Average Rate %	Average Balance $m	Average Rate %
New Zealand						
Certificates of deposit	**2,849**	**2.84**	4,369	5.01	4,105	8.72
Non-interest bearing, repayable at call	**2,341**	**N/A**	2,119	N/A	2,113	N/A
Other interest bearing:						
At call	**10,531**	**2.69**	12,758	2.85	13,177	5.27
Term	**17,078**	**4.52**	13,846	6.19	12,180	9.48
Total New Zealand	**32,799**	**3.46**	33,092	4.35	31,575	6.99
Other overseas	-	-	-	-	-	-
Total deposits	**32,799**	**3.46**	33,092	4.35	31,575	6.99

Maturity profile of deposits in excess of $100,000

Certificates of deposit are issued for a minimum of $100,000. The maturity profile of certificates of deposit and term deposits greater than $100,000 issued by the Banking Group were as follows.

	The Banking Group				
	Up to 3 Months $m	**More Than 3 Months to 6 Months $m**	**More Than 6 Months to 1 Year $m**	**Over 1 Year $m**	**Total $m**
30 September 2010					
Certificates of deposit in excess of $100,000	**1,719**	**167**	**16**	-	**1,902**
Term deposits in excess of $100,000	**5,940**	**3,599**	**1,885**	**641**	**12,065**
30 September 2009					
Certificates of deposit in excess of $100,000	3,150	210	104	4	3,468
Term deposits in excess of $100,000	6,162	3,044	1,231	1,065	11,502
30 September 2008					
Certificates of deposit in excess of $100,000	2,702	1,270	172	19	4,163
Term deposits in excess of $100,000	7,775	1,960	979	281	10,995

As at 30 September 2010, 2009 and 2008, there were no certificates of deposit or term deposits issued by foreign offices that were greater than $100,000.

Note 19 Trading liabilities and other financial liabilities designated at fair value

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Held for trading				
Securities sold under agreements to repurchase	-	1,885	-	1,885
Total trading liabilities	-	1,885	-	1,885
Amounts expected to be settled within 12 months	-	1,885	-	1,885
Amounts expected to be settled after 12 months	-	-	-	-
Total trading liabilities and other financial liabilities designated at fair value	-	1,885	-	1,885

Note 20 Debt issues

	The Banking Group			The Bank		
	2010 $m	2009 $m	2008 $m	**2010 $m**	2009 $m	2008 $m
Short-term debt						
Commercial paper	**6,546**	6,027	6,578	**-**	-	-
Total short-term debt	**6,546**	6,027	6,578	**-**	-	-
Long-term debt						
Euro medium-term notes	**6,711**	4,139	4,524	**-**	-	1,582
Domestic medium-term notes	**2,182**	2,203	-	**2,182**	2,203	-
Total long-term debt	**8,893**	6,342	4,524	**2,182**	2,203	1,582
Total debt issues	**15,439**	12,369	11,102	**2,182**	2,203	1,582
Government guaranteed debt[1]	**4,141**	4,129	-	**665**	673	-
Non-government guaranteed debt	**11,298**	8,240	11,102	**1,517**	1,530	1,582
Total debt issues	**15,439**	12,369	11,102	**2,182**	2,203	1,582
Debt issues at amortised cost	**8,893**	6,287	1,582	**2,182**	2,203	1,582
Debt issues at fair value	**6,546**	6,082	9,520	**-**	-	-
Total debt issues	**15,439**	12,369	11,102	**2,182**	2,203	1,582
Amounts expected to be settled within 12 months	**7,179**	6,767	8,958	**632**	310	286
Amounts expected to be settled after 12 months	**8,260**	5,602	2,144	**1,550**	1,893	1,296
Total debt issues	**15,439**	12,369	11,102	**2,182**	2,203	1,582

1 For further information on government guaranteed debt please refer to Guarantee arrangements on page 4.

Short-term debt

The following table sets out details of the Banking Group's US and Euro commercial paper short-term debt as at 30 September 2010, 2009 and 2008.

	The Banking Group		
	2010 $m	2009 $m	2008 $m
US commercial paper			
Outstanding at year end	**6,201**	5,335	5,294
Approximate weighted average interest rate on the outstanding balance (%)	**0.37**	0.32	2.80
Maximum amount outstanding at any month end	**9,032**	5,889	6,619
Approximate average amount outstanding	**7,376**	4,060	5,216
Approximate weighted average interest rate on the average amount outstanding (%)	**0.34**	1.45	3.74
Euro commercial paper			
Outstanding at year end	**345**	692	1,284
Approximate weighted average interest rate on the outstanding balance (%)	**1.62**	0.54	4.61
Maximum amount outstanding at any month end	**2,559**	4,579	4,212
Approximate average amount outstanding	**743**	2,135	2,500
Approximate weighted average interest rate on the average amount outstanding (%)	**0.74**	1.87	4.42
Total short-term debt	**6,546**	6,027	6,578

Note 21 Provisions

	The Banking Group and the Bank				
	Long Service Leave $m	**Annual Leave and Other Staff Benefits $m**	**Non-lending Losses $m**	**Impairment on Credit Commitments $m**	**Total $m**
Balance as at 1 October 2009	**7**	**32**	**2**	**35**	**76**
Additional provisions recognised	**1**	**11**	**5**	**-**	**17**
Utilised during the year	**(1)**	**(7)**	**(6)**	**(6)**	**(20)**
Balance as at 30 September 2010	**7**	**36**	**1**	**29**	**73**
Balance as at 1 October 2008	7	33	5	22	67
Additional provisions recognised	-	13	2	13	28
Utilised during the year	-	(14)	(5)	-	(19)
Balance as at 30 September 2009	7	32	2	35	76

Provisions represent costs the Banking Group and the Bank expect to incur as a result of past events, where the timing of payment is uncertain. Provisions expected to be utilised beyond 12 months as at 30 September 2010 are $37 million (30 September 2009: $44 million) for the Banking Group and the Bank.

Note 22 Other liabilities

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Accrued interest payable	**325**	290	**264**	246
Credit card loyalty programme	**27**	27	**27**	27
Retirement benefit deficit (refer to Note 31)	**47**	30	**47**	30
Trade creditors and other accrued expenses	**92**	78	**83**	75
Other	**50**	99	**46**	93
Total other liabilities	**541**	524	**467**	471
Amounts expected to be settled within 12 months	**494**	494	**420**	441
Amounts expected to be settled after 12 months	**47**	30	**47**	30
Total other liabilities	**541**	524	**467**	471

Note 23 Perpetual subordinated notes

Perpetual subordinated notes have been issued to Westpac New Zealand Group Limited and constitute Upper Tier Two Capital of the Banking Group. 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	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Perpetual subordinated notes	**970**	970	**970**	970
Total perpetual subordinated notes	**970**	970	**970**	970

Note 24 Priority of financial liabilities in the event of liquidation

In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Note 25 Share capital

Ordinary shares fully paid

	The Banking Group		The Bank	
	2010 Number of Issued Shares	2009 Number of Issued Shares	**2010 Number of Issued Shares**	2009 Number of Issued Shares
Balance at beginning of the year	**3,470,001,000**	3,250,001,000	**3,470,001,000**	3,250,001,000
Shares issued during the year	**-**	220,000,000	**-**	220,000,000
Balance at end of the year	**3,470,001,000**	3,470,001,000	**3,470,001,000**	3,470,001,000
	$m	$m	**$m**	$m
Balance at beginning of the year	**3,470**	3,250	**3,470**	3,250
Shares issued during the year	**-**	220	**-**	220
Balance at end of the year	**3,470**	3,470	**3,470**	3,470

Redeemable preference shares fully paid

	The Banking Group		The Bank	
	2010 Number of Issued Shares	2009 Number of Issued Shares	**2010 Number of Issued Shares**	2009 Number of Issued Shares
Balance at beginning of the year	**-**	1,300,000,000	**-**	1,300,000,000
Shares redeemed during the year	**-**	(1,300,000,000)	**-**	(1,300,000,000)
Balance at end of the year	**-**	-	**-**	-
	$m	$m	**$m**	$m
Balance at beginning of the year	**-**	1,300	**-**	1,300
Shares redeemed during the year	**-**	(1,300)	**-**	(1,300)
Balance at end of the year	**-**	-	**-**	-

Note 25 Share capital (continued)

B Voting shares fully paid

	The Banking Group		The Bank	
	2010 Number of Issued Shares	2009 Number of Issued Shares	**2010 Number of Issued Shares**	2009 Number of Issued Shares
Balance at beginning and end of the year	**20,000**	20,000	**20,000**	20,000
	$m	$m	**$m**	$m
Balance at beginning and end of the year	**0.02**	0.02	**0.02**	0.02

Ordinary shares

On 22 October 2008, the Bank issued 220,000,000 ordinary shares for $220,000,000 in lieu of dividends. In accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) ordinary share capital is classified as Tier One Capital.

The ordinary shares have no par value in accordance with section 38 of the Companies Act 1993. 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.

Dividends paid by the Bank on the ordinary shares for the year ended 30 September 2010 were nil (30 September 2009: $220 million). Dividends paid per ordinary share by the Bank for the year ended 30 September 2010 were nil (30 September 2009: 6.8 cents).

Redeemable preference shares ('RPS')

The 1.3 billion RPS were issued for consideration of $1 per share on 20 February 2008 and constituted neither Tier One nor Tier Two Capital. 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 were 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 were to be made in priority to those on ordinary shares, but pari passu with those on the B Voting shares (as described below).

The RPS were redeemed at their issue price of $1.3 billion on 18 February 2009.

Dividends paid by the Bank on the RPS for the year ended 30 September 2009 were $104 million. Dividends paid per RPS by the Bank for the year ended 30 September 2009 were 8.0 cents.

B Voting shares

The B Voting shares are classified as Tier Two Capital. 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 were payable on B Voting shares 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 26 Related entities

Banking Group

The Bank is a controlled entity of Westpac New Zealand Group Limited. The Ultimate Parent Bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all of its controlled entities. As at 30 September 2010 the Bank had the following controlled entities:

Name of Entity	Principal Activity	Notes
Westpac NZ Operations Limited	Holding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property owning company	
Westpac Securities NZ Limited	Funding company	
Number 120 Limited	Finance company	Incorporated 11 February 2010
Westpac NZ Securitisation Holdings Limited	Holding company	Incorporated 14 October 2008[1]
Westpac NZ Securitisation Limited	Funding company	Incorporated 14 October 2008[1]
Westpac Term PIE Fund	Portfolio investment entity	Established 20 July 2009[2]

1 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. The Banking Group is considered to control both WNZSHL and WNZSL through contractual arrangements put in place, and as such both WNZSHL and WNZSL are consolidated in the financial statements of the Banking Group.

2 Westpac Term PIE Fund ('**Term PIE**') was established on 20 July 2009 as a unit trust under the Unit Trusts Act 1960. Term PIE is a portfolio investment entity ('PIE'), where BT Funds Management (NZ) Limited is the manager and issuer of Term PIE. The manager has appointed the Bank to perform all customer management and account administration for Term PIE. The Bank is the Term PIE's registrar and administration manager. The Bank does not hold any units in Term PIE and is considered to control Term PIE based on contractual arrangements put in place, and as such Term PIE is consolidated in the financial statements of the Banking Group.

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, except Term PIE which has a balance date of 31 March.

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

Note 26 Related entities (continued)

Investment in associate

The Banking Group holds 15% of Cards NZ Limited's equity plus one Visa Inc access preference share.

	The Banking Group	
	2010 $m	2009 $m
Balance at beginning of the year	**48**	48
Dividends received	**(1)**	-
Equity share of net profit	**1**	-
Balance at end of the year	**48**	48

Nature of transactions

The Banking Group has intragroup transactions with members of the Ultimate Parent Bank on commercial terms, including the provision of management and administrative services and data processing facilities. Such transactions are not considered to be material either individually or in aggregate.

Transactions with the Ultimate Parent Bank

Loan finance and current account banking facilities are provided by the Bank and the Ultimate Parent Bank to members of the Banking Group on normal commercial terms. Interest is paid on these loans at market rates and members of the Banking Group earn interest on deposits with the Bank and the Ultimate Parent Bank.

Management fees are paid by the Bank to the Ultimate Parent Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Ultimate Parent Bank. The total amount charged by the Ultimate Parent Bank for the year ended 30 September 2010 was $8 million (30 September 2009: $7 million).

The Bank pays subvention payments to 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 year ended 30 September 2010 was nil (30 September 2009: nil). 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 NZ Branch 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 year ended 30 September 2010 was $4 million (30 September 2009: $6 million).

Transactions with controlled entities of the Banking Group

The Bank provided funding to WNZSL in relation to securitisation activities during the current reporting period (refer to Note 34).

Rental expenses are paid by the Bank to Westpac (NZ) Investments Limited. The total charge for the year ended 30 September 2010 was $82 million (30 September 2009: $81 million).

Westpac Securities NZ Limited ('**WSNZL**') provides offshore funding to the Bank. Management fees are paid by the Bank for these services. Management fees paid for the year ended 30 September 2010 were $1 million (30 September 2009: $2 million).

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

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid to the Bank for the year ended 30 September 2010 were $4 million (30 September 2009: $5 million).

Transactions with other controlled entities of the Ultimate Parent Bank

Managed funds products are sold by the Bank on behalf of members of the Ultimate Parent Bank Group. The Bank receives commission from these sales. Commission received for the year ended 30 September 2010 was $5 million (30 September 2009: $5 million).

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

Life and general insurance products are sold by the Bank on behalf of the Ultimate Parent Bank Group. The Bank receives commission on these sales. Life and general insurance commissions received for the year ended 30 September 2010 were $16 million and $12 million (30 September 2009: $17 million and $5 million), respectively.

Transactions with associates

In 2008, 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. $1 million interest was paid on the promissory note during the year ended 30 September 2010 (30 September 2009: $2 million).

Note 26 Related entities (continued)

Due from and to related entities

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Due from related entities				
Parent companies[1]	**825**	576	**764**	576
Controlled entities of the Banking Group	**-**	-	**7,562**	7,553
Other members of the Overseas Banking Group	**5**	-	**5**	-
Total due from related entities	**830**	576	**8,331**	8,129
Due to related entities				
Parent companies[1]	**1,580**	2,378	**1,507**	2,181
Controlled entities of the Banking Group	**-**	-	**21,224**	18,005
Other members of the Overseas Banking Group	**-**	-	**-**	2
Associates of the Banking Group	**48**	48	**48**	48
Total due to related entities	**1,628**	2,426	**22,779**	20,236

1 Parent companies include the Ultimate Parent Bank (including the NZ Branch) and all intermediate parent companies of the Bank.

Other group investments

The Banking Group had significant non-controlling shareholdings in the following New Zealand based entities as at 30 September 2010:

Name	Shares Held by	Beneficial Interest	Nature of Business
Paymark Limited (previously Electronic Transaction Services Limited)	Westpac NZ Operations Limited	25%	EFTPOS Settlements
Interchange and Settlement Limited	Westpac NZ Operations Limited	14%	Payments processing clearing house

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

The total carrying amount of the Banking Group's significant non-controlling shareholdings in the above investments, and their contribution to the results of the Banking Group, are not material either individually or in aggregate.

The Bank acquired 22.97% of the shares of Payments NZ Limited on 1 October 2010. Payments NZ Limited owns the governance framework for the New Zealand payments system. The consideration paid for these shares was not material to the Bank or the Banking Group.

Note 27 Derivative financial instruments

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

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

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

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

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

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the 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 instruments that are both favourable and unfavourable.

The Banking Group uses derivatives as an end-user as part of its asset and liability management activities. Derivatives with related parties are included in due from/due to related entities.

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 from customers denominated in local currency using swaps.

Note 27 Derivative financial instruments (continued)

For the Banking Group and the Bank, the change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2010 was a $378 million gain (30 September 2009: $186 million loss) while the change in the fair value of the hedged items, attributed to the hedge risk for the year ended 30 September 2010 was a $374 million loss (30 September 2009: $187 million gain).

Cash flow hedges

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits and term deposits from customers using swaps. The Banking Group also hedges exposure to foreign currency principal and interest cash flows from floating-rate medium-term debt issuance through the use of cross-currency derivatives.

Dual fair value and cash flow hedges

The Banking Group hedges foreign currency denominated medium-term debt issuance using cross-currency interest rate derivatives, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

Derivatives held with external counterparties

	The Banking Group and The Bank		
		2010	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	**418**	**17**	**-**
Total held for trading derivatives	**418**	**17**	**-**
Total derivatives	**418**	**17**	**-**

	The Banking Group and The Bank		
		2009	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	525	22	-
Total held for trading derivatives	525	22	-
Total derivatives	525	22	-

Derivatives held with related entities

	The Banking Group and The Bank		
		2010	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Forwards	**26,280**	**6**	**(14)**
Swaps	**543**	**-**	**(6)**
Foreign exchange derivatives			
Swaps	**7,093**	**2**	**(271)**
Total held for trading derivatives	**33,916**	**8**	**(291)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**5,700**	**-**	**(275)**
Foreign exchange derivatives			
Swaps[1]	**5,950**	**22**	**(505)**
Total fair value hedging derivatives	**11,650**	**22**	**(780)**
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	**9,785**	**90**	**(141)**
Foreign exchange derivatives			
Swaps	**311**	**9**	**(6)**
Total cash flow hedging derivatives	**10,096**	**99**	**(147)**
Total derivatives	**55,662**	**129**	**(1,218)**

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Note 27 Derivative financial instruments (continued)

	The Banking Group and The Bank		
		2009	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Forwards	5,250	-	(1)
Swaps	4,233	9	(2)
Foreign exchange derivatives			
Swaps	6,716	1	(521)
Total held for trading derivatives	16,199	10	(524)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	10,987	1	(585)
Foreign exchange derivatives			
Swaps[1]	3,470	-	(544)
Total fair value hedging derivatives	14,457	1	(1,129)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	10,782	18	(31)
Total cash flow hedging derivatives	10,782	18	(31)
Total derivatives	41,438	29	(1,684)

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Underlying cash flows from cash flow hedges, as a proportion of total cash flows, are expected to occur in the following periods:

	The Banking Group and The Bank							
	2010							
	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**	**6**	**19**	**19**	**40**	**9**	**1**	**4**
Cash outflows (liabilities)	**2**	**8**	**21**	**20**	**37**	**8**	**1**	**3**

	The Banking Group and The Bank							
	2009							
	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	6	19	28	21	14	10	-
Cash outflows (liabilities)	2	7	22	26	19	14	10	-

For the year ended 30 September 2010, a $1 million loss on cash flow hedges was recognised due to hedge ineffectiveness (30 September 2009: nil) in the Banking Group and the Bank.

For the year ended 30 September 2010, a $4 million gain on fair value hedges was recognised due to hedge ineffectiveness (30 September 2009: $1 million gain) in the Banking Group and the Bank.

Note 28 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 values or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments 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.

NZ IFRS 7 *Financial Instruments: Disclosure* requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. Fair value for financial instruments has been determined as follows:

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 fair value.

Trading securities

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

Note 28 Fair value of financial instruments (continued)

Floating rate financial instruments

For floating rate financial instruments (including variable rate loans which comprise a portion of the Banking Group's loan portfolio) with no significant change in credit risk the carrying amount is a reasonable estimate of fair value.

Due from other financial institutions and fixed rate loans

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

Due to other financial institutions, deposits and debt issues

The fair value of demand deposits is the amount payable on demand as at balance date. For other liabilities with maturities of less than three months the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the rates currently offered for similar liabilities of similar remaining maturities.

Perpetual subordinated notes

Perpetual subordinated notes are carried at amortised cost which approximates the fair value.

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.

Other financial assets and liabilities

For all other financial assets and liabilities the carrying amount approximates fair value. These items are either short-term in nature, reprice frequently or are of a high credit rating.

Interest rates used for determining fair value

The following rates used to discount estimated cash flows, where applicable, are based on the wholesale markets yield curve at the reporting date plus an appropriate constant credit spread:

	The Banking Group and the Bank	
	2010	2009
	%	%
Loans	**3.12 - 9.28**	3.88 - 9.51
Deposits	**0.08 - 7.85**	2.48 - 7.85
Debt issues	**0.28 - 8.87**	0.06 - 6.35

The tables below summarise the categories of financial instruments and the carrying value and fair value of all financial instruments of the Banking Group and the Bank.

	The Banking Group 2010							
	Classified at Fair Value through Profit or Loss							
	Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	**522**	-	-	**522**	**522**
Due from other financial institutions	-	-	-	**3**	-	-	**3**	**3**
Derivative financial instruments	**17**	-	-	-	-	-	**17**	**17**
Trading securities and other financial assets designated at fair value	**2,587**	-	-	-	-	-	**2,587**	**2,587**
Available-for-sale securities	-	-	-	-	**44**	-	**44**	**44**
Loans	-	-	-	**50,034**	-	-	**50,034**	**50,195**
Due from related entities	-	-	-	**830**	-	-	**830**	**830**
Other assets	-	-	-	**143**	-	-	**143**	**143**
Total financial assets	**2,604**	-	-	**51,532**	**44**	-	**54,180**	**54,341**
Financial liabilities								
Deposits at fair value	**1,990**	-	-	-	-	-	**1,990**	**1,990**
Deposits at amortised cost	-	-	-	-	-	**30,476**	**30,476**	**30,520**
Debt issues	-	**6,546**	-	-	-	**8,893**	**15,439**	**16,487**
Other liabilities	-	-	-	-	-	**494**	**494**	**494**
Perpetual subordinated notes	-	-	-	-	-	**970**	**970**	**970**
Due to related entities	**283**	-	**806**	-	-	**539**	**1,628**	**1,628**
Total financial liabilities	**2,273**	**6,546**	**806**	-	-	**41,372**	**50,997**	**52,089**

Note 28 Fair value of financial instruments (continued)

The Banking Group

2009

	Classified at Fair Value through Profit or Loss							
	Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	213	-	-	213	213
Due from other financial institutions	-	-	-	3	-	-	3	3
Derivative financial instruments	22	-	-	-	-	-	22	22
Trading securities and other financial assets designated at fair value	4,421	-	-	-	-	-	4,421	4,421
Available-for-sale securities	-	-	-	-	37	-	37	37
Loans	-	-	-	48,174	-	-	48,174	48,565
Due from related entities	-	-	-	576	-	-	576	576
Other assets	-	-	-	142	-	-	142	142
Total financial assets	4,443	-	-	49,108	37	-	53,588	53,979
Financial liabilities								
Deposits at fair value	3,648	-	-	-	-	-	3,648	3,648
Deposits at amortised cost	-	-	-	-	-	28,847	28,847	28,899
Trading liabilities and other financial liabilities designated at fair value	1,885	-	-	-	-	-	1,885	1,885
Debt issues	-	6,082	-	-	-	6,287	12,369	12,540
Other liabilities	-	-	-	-	-	494	494	494
Perpetual subordinated notes	-	-	-	-	-	970	970	970
Due to related entities	514	-	1,141	-	-	771	2,426	2,426
Total financial liabilities	6,047	6,082	1,141	-	-	37,369	50,639	50,862

The Bank

2010

	Classified at Fair Value through Profit or Loss							
	Held for Trading $m	**Designated upon Initial Recognition $m**	**Hedging $m**	**Loans and Receivables $m**	**Available-for-sale Financial Assets $m**	**Financial Liabilities at Amortised Cost $m**	**Total Carrying Amount $m**	**Estimated Fair Value $m**
Financial assets								
Cash and balances with central banks	**-**	**-**	**-**	**522**	**-**	**-**	**522**	**522**
Derivative financial instruments	**17**	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Trading securities and other financial assets designated at fair value	**2,587**	**-**	**-**	**-**	**-**	**-**	**2,587**	**2,587**
Available-for-sale securities	**-**	**-**	**-**	**-**	**44**	**-**	**44**	**44**
Loans	**-**	**-**	**-**	**49,875**	**-**	**-**	**49,875**	**50,035**
Due from related entities	**-**	**-**	**-**	**8,331**	**-**	**-**	**8,331**	**8,331**
Other assets	**-**	**-**	**-**	**142**	**-**	**-**	**142**	**142**
Total financial assets	**2,604**	**-**	**-**	**58,870**	**44**	**-**	**61,518**	**61,678**
Financial liabilities								
Deposits at fair value	**1,990**	**-**	**-**	**-**	**-**	**-**	**1,990**	**1,990**
Deposits at amortised cost	**-**	**-**	**-**	**-**	**-**	**30,159**	**30,159**	**30,203**
Debt issues	**-**	**-**	**-**	**-**	**-**	**2,182**	**2,182**	**3,232**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**420**	**420**	**420**
Perpetual subordinated notes	**-**	**-**	**-**	**-**	**-**	**970**	**970**	**970**
Due to related entities	**283**	**6,544**	**806**	**-**	**-**	**15,146**	**22,779**	**22,918**
Total financial liabilities	**2,273**	**6,544**	**806**	**-**	**-**	**48,877**	**58,500**	**59,733**

Note 28 Fair value of financial instruments (continued)

	The Bank							
	2009							
	Classified at Fair Value through Profit or Loss							
	Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	212	-	-	212	212
Derivative financial instruments	22	-	-	-	-	-	22	22
Trading securities and other financial assets designated at fair value	4,421	-	-	-	-	-	4,421	4,421
Available-for-sale securities	-	-	-	-	37	-	37	37
Loans	-	-	-	48,015	-	-	48,015	48,405
Due from related entities	-	-	-	8,129	-	-	8,129	8,129
Other assets	-	-	-	139	-	-	139	139
Total financial assets	4,443	-	-	56,495	37	-	60,975	61,365
Financial liabilities								
Deposits at fair value	3,648	-	-	-	-	-	3,648	3,648
Deposits at amortised cost	-	-	-	-	-	28,831	28,831	28,882
Trading liabilities and other financial liabilities designated at fair value	1,885	-	-	-	-	-	1,885	1,885
Debt issues	-	-	-	-	-	2,203	2,203	2,338
Other liabilities	-	-	-	-	-	441	441	441
Perpetual subordinated notes	-	-	-	-	-	970	970	970
Due to related entities	514	6,065	1,141	-	-	12,516	20,236	20,270
Total financial liabilities	6,047	6,065	1,141	-	-	44,961	58,214	58,434

Fair valuation control framework

The Banking Group uses a well established Fair Valuation Control Framework to determine the fair value of financial assets and liabilities. The framework consists of policies and procedures that ensure the Banking Group is in compliance with relevant accounting, industry and regulatory standards. This framework includes details on the approach taken with respect to the revaluation of financial instruments, independent price verification, fair value adjustments and financial reporting.

The method of determining a fair value according to the Fair Valuation Control Framework falls into one of two main approaches:

- Mark-to–market: where the valuation uses independent unadjusted quoted market prices.
- Mark–to-model: where valuation techniques are used to determine the valuation.

Valuation techniques often require adjustments to ensure correct fair value representation. The Banking Group's valuation adjustments include:

- Credit valuation adjustment: Some market and model derived valuations assume similar credit quality for all counterparties. To correct for this assumption, an adjustment is employed on the majority of derivative positions which reflects the market view of both the counterparty credit risk for derivatives with a positive mark-to-market and recorded as assets ('**CVA**'), and for the Banking Group credit risk for derivatives with a negative mark-to-market and recorded as liabilities ('**DVA**'). The Banking Group uses a Monte Carlo simulation methodology to calculate the expected future credit exposure for all derivative exposures including inputs regarding probabilities of default ('**PD**') and loss given default ('**LGD**'). PDs are derived from market observed credit spreads by reference to credit default swap ('**CDS**') sector curves for the relevant tenors to calculate CVA, and the Banking Group's CDS curve for the relevant tenors to calculate DVA. PDs are then applied to the horizon of potential exposures to derive both the CVA and DVA.
- Bid-offer spreads adjustment: The fair value of financial assets and liabilities should reflect bid prices for assets and offer prices for liabilities. Prices are adjusted to reflect current bid-offer spreads.
- Single currency basis risk adjustment: Currently some Banking Group valuation techniques use projected cash flows generated from standard curves. Often these standard curves do not fit the payment frequency of the valued instrument. A single currency basis risk adjustment is made to reflect the difference in payment frequency. Observed market data of single currency basis swaps is used to calculate the adjustment.

The fair values of large holdings of financial instruments are based on a multiple of the estimated value of a single instrument and do not include block adjustments for the size of the holding.

Note 28 Fair value of financial instruments (continued)

Fair value hierarchy

The Banking Group categorises all fair value measurements according to the following fair value hierarchy:

- Quoted market price (Level 1)
  This valuation technique uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis. Financial instruments included in this category are mainly investments in listed equity securities.
- Valuation technique using observable inputs (Level 2)
  This valuation technique is used for financial instruments where quoted market prices are not available so prices are derived from standard valuation models, and inputs to these models are directly observable. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques widely used and accepted by market participants. Financial instruments included in this category are mainly over the counter ('**OTC**') derivatives with observable market inputs, trading securities including government bonds and floating rate notes ('**FRN**'), and derivatives including interest rate swaps and foreign currency swaps.
- Valuation technique with significant non-observable inputs (Level 3)
  This valuation technique is used where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. Financial instruments included in this category show illiquidity in the market. Some valuations rely on estimation from related markets or proxies.

  The Bank and the Banking Group did not hold any financial instruments in the Level 3 category as at 30 September 2010 (30 September 2009: nil).

Valuation techniques, valuation inputs and asset classification

A variety of valuation techniques are used to derive the fair value of each instrument. Mark-to-market is the preferred valuation technique for all products. However when markets are illiquid and prices not quoted modelling techniques are used to derive fair value. The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category is outlined below:

Interest rate derivatives

These are products with a pay-off linked to interest rates i.e. New Zealand Bank Bill Reference Rate ('**BKBM**'), London InterBank Offer Rate ('**LIBOR**') or inflation rates. These products include interest rate swaps, swaptions, caps, floors, collars and other complex interest rate derivatives. For these instruments, as market prices are unavailable, the Banking Group uses valuation models to derive fair value. The models are industry standard and mostly employ a Black-Scholes framework to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates such as BKBM and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such, the input parameters into the models are deemed market observable and therefore interest rate derivatives are categorised as Level 2 instruments.

Foreign exchange (FX) swaps, forwards and other FX derivatives

FX swaps and forwards are not traded on exchanges and are not generally liquid. FX swap and forward valuations are derived from consensus data providers. Both simple and complex derivatives are valued using industry standard models which revolve around a Black-Scholes framework. The inputs to the calculation include FX spot rates, interest rates and FX volatilities. These inputs are market observable or provided by consensus data providers and therefore FX swaps, forwards and other FX derivatives are categorised as Level 2 instruments.

Debt market products

Government bonds, commercial paper and notes generally do not have quoted market prices. The Banking Group uses valuation models to derive the fair value of these instruments. The valuation techniques are standard and mainly use a discounted cashflow approach. The main model inputs are observed instrument data used to derive the discount curves and therefore debt market products are classified as Level 2 instruments.

Certificates of deposit

The fair value of certificates of deposit uses a discounted cashflow approach using market rates offered for deposits of similar remaining maturities and are therefore classified as Level 2 instruments.

Debt issues at fair value

Where a quoted price is not available the fair value of debt issues uses a discounted cashflow approach, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Banking Group. These instruments are therefore classified as Level 2 instruments.

Disclosure of fair value

Due to the number of different valuation models used and the underlying assumptions made regarding inputs selected, such as timing and amounts of future cash flows, discount rates, credit risk and volatility, it is often difficult to compare the fair value information disclosed here against fair value information disclosed by other financial institutions.

There were no material amounts of changes in fair value, estimated using a valuation technique but incorporating significant non-observable inputs, that were recognised in the income statements of the Banking Group and the Bank during the year ended 30 September 2010 (30 September 2009: nil).

There have been no significant transfers between Levels 1 and 2 during the year ended 30 September 2010 (30 September 2009: nil). There have also been no significant transfers into/out of Level 3 during the year ended 30 September 2010 (30 September 2009: nil).

Note 28 Fair value of financial instruments (continued)

The following tables summarise the basis for the determination of the fair values of financial instruments that are measured at fair value after initial recognition:

	The Banking Group			The Bank		
		2010			**2010**	
	Quoted Market Prices $m	**Valuation Techniques (Market Observable Inputs) $m**	**Total $m**	**Quoted Market Prices $m**	**Valuation Techniques (Market Observable Inputs) $m**	**Total $m**
Financial assets						
Derivative financial instruments	**-**	**17**	**17**	**-**	**17**	**17**
Trading securities and other financial assets designated at fair value	**-**	**2,587**	**2,587**	**-**	**2,587**	**2,587**
Available-for-sale securities	**44**	**-**	**44**	**44**	**-**	**44**
Total financial assets carried at fair value	**44**	**2,604**	**2,648**	**44**	**2,604**	**2,648**
Financial liabilities						
Deposits at fair value	**-**	**1,990**	**1,990**	**-**	**1,990**	**1,990**
Debt issues at fair value	**-**	**6,546**	**6,546**	**-**	**-**	**-**
Due to related entities	**-**	**1,089**	**1,089**	**-**	**7,633**	**7,633**
Total financial liabilities carried at fair value	**-**	**9,625**	**9,625**	**-**	**9,623**	**9,623**

	The Banking Group			The Bank		
		2009			2009	
	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m
Financial assets						
Derivative financial instruments	-	22	22	-	22	22
Trading securities and other financial assets designated at fair value	-	4,421	4,421	-	4,421	4,421
Available-for-sale securities	37	-	37	37	-	37
Total financial assets carried at fair value	37	4,443	4,480	37	4,443	4,480
Financial liabilities						
Deposits at fair value	-	3,648	3,648	-	3,648	3,648
Trading liabilities and other financial liabilities designated at fair value	-	1,885	1,885	-	1,885	1,885
Debt issues at fair value	-	6,082	6,082	-	-	-
Due to related entities	-	1,655	1,655	-	7,720	7,720
Total financial liabilities carried at fair value	-	13,270	13,270	-	13,253	13,253

Note 29 Commitments and contingent liabilities

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Commitments for capital expenditure				
Due within one year	**30**	16	**-**	-
Other expenditure commitments:				
One year or less	**88**	85	**88**	85
Between one and five years	**109**	182	**109**	182
Over five years	**4**	4	**4**	4
Total other expenditure commitments	**201**	271	**201**	271
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**205**	203	**-**	-
Motor vehicles	**6**	4	**6**	4
Total lease commitments	**211**	207	**6**	4
Lease commitments are due as follows:				
One year or less	**43**	39	**2**	2
Between one and five years	**94**	86	**4**	2
Over five years	**74**	82	**-**	-
Total lease commitments	**211**	207	**6**	4
Other contingent liabilities and commitments				
Direct credit substitutes	**52**	45	**52**	45
Loan commitments with certain drawdown	**105**	208	**105**	208
Transaction related contingent items	**254**	279	**254**	279
Short-term, self liquidating trade related contingent liabilities	**758**	678	**758**	678
Other commitments to provide financial services which have an original maturity of one year or more	**5,925**	6,502	**5,925**	6,502
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	**4,487**	3,978	**4,349**	3,779
Total other contingent liabilities and commitments	**11,581**	11,690	**11,443**	11,491

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 financial 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.

The Banking Group is obliged to repurchase securitised loans held by the Westpac Home Loan Trust ('**HLT**') or the Westpac NZ Securitisation Limited securitisation programme, where it is discovered within 120 days of sale that those loans were not eligible for sale when sold, or where the securitised loans cease to conform to certain terms and conditions of the Westpac NZ Securitisation Limited securitisation programme. It is not envisaged that any liability resulting in material loss to the Banking Group will arise from this obligation.

The Bank guarantees commercial paper and other debt securities issued by its wholly owned subsidiary, WSNZL, the proceeds of which, in accordance with Reserve Bank guidelines, are immediately on-lent to the Bank. Guarantees outstanding as at 30 September 2010 were New Zealand dollar equivalent $13,114 million (30 September 2009: $10,168 million).

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.

On 23 December 2009 the NZ Branch and relevant subsidiaries reached a settlement with the New Zealand Commissioner of Inland Revenue of the previously reported proceedings relating to nine structured finance transactions undertaken between 1998 and 2002. All proceedings have been discontinued and the terms of the settlement are subject to confidentiality. The payment of any tax under the settlement rests with the Ultimate Parent Bank.

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

Note 29 Commitments and contingent liabilities (continued)

Other commitments

As at 30 September 2010, 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, currency and credit risks (please refer to Note 37). Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions.

Note 30 Segment information

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

The basis of segment reporting reflects the management of the business, rather than the legal structure of the Banking Group. There is no difference in accounting measurement between management and legal structures. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on an arm's length basis.

With the adoption of NZ IFRS 8 *Operating Segments* ('**NZ IFRS 8**'), the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors that the Banking Group operates in New Zealand and aligns with internal reporting to key management personnel.

The Banking Group does not rely on any single major customer for its revenue base.

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

- Business Banking provides financial services for small to medium size enterprise customers, corporates and agricultural businesses. Business Banking also provides domestic transactional banking to the New Zealand Government;
- Retail Banking provides financial services for private individuals; and
- Wealth provides financial services for high net worth individuals, funds management and insurance distribution.

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking constitutes a separately reportable segment.

Reconciling items primarily represent:

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

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

	The Banking Group			
	2010			
	Business Banking $m	Consumer Banking $m	Reconciling Items $m	Total Consolidated $m
Revenue from external customers[1]	1,773	3,318	(1,299)	3,792
Internal revenue	3	2	(5)	-
Total segment revenue	1,776	3,320	(1,304)	3,792
Net interest income	414	660	90	1,164
Non-interest income	82	272	(63)	291
Net operating income	496	932	27	1,455
Depreciation	-	(2)	(21)	(23)
Software amortisation costs	-	-	(43)	(43)
Other operating expenses	(67)	(205)	(366)	(638)
Total operating expenses	(67)	(207)	(430)	(704)
Impairment charges on loans	(158)	(167)	(9)	(334)
Share of profit of associate accounted for using equity method	-	-	1	1
Profit/(loss) before income tax expense	271	558	(411)	418
Income tax expense	(82)	(156)	106	(132)
Profit/(loss) after income tax expense	189	402	(305)	286
Profit/(loss) after income tax expense attributable to:				
Owners of the Banking Group	189	399	(305)	283
Non-controlling interests	-	3	-	3
	189	402	(305)	286
Total gross loans	20,995	29,811	(43)	50,763
Total deposits	9,410	21,066	1,990	32,466

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

Note 30 Segment information (continued)

	The Banking Group			
	2009			
	Business Banking $m	Consumer Banking $m	Reconciling Items $m	Total Consolidated $m
Revenue from external customers[1]	1,983	3,688	(1,320)	4,351
Internal revenue	6	1	(7)	-
Total segment revenue	1,989	3,689	(1,327)	4,351
Net interest income	443	671	202	1,316
Non-interest income	90	308	(35)	363
Net operating income	533	979	167	1,679
Depreciation	-	(2)	(18)	(20)
Software amortisation costs	-	-	(45)	(45)
Other operating expenses	(60)	(205)	(378)	(643)
Total operating expenses	(60)	(207)	(441)	(708)
Impairment charges on loans	(446)	(134)	(40)	(620)
Profit/(loss) before income tax expense	27	638	(314)	351
Income tax expense	(8)	(183)	88	(103)
Profit/(loss) after income tax expense	19	455	(226)	248
Profit/(loss) after income tax expense attributable to:				
Owners of the Banking Group	19	452	(226)	245
Non-controlling interests	-	3	-	3
	19	455	(226)	248
Total gross loans	20,293	28,236	165	48,694
Total deposits	8,738	20,109	3,648	32,495

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

Note 31 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. The defined benefit scheme has been closed to new members since 1 April 1990. An actuarial valuation of the scheme is undertaken periodically, with the last actuarial assessment of the funding status undertaken as at 30 June 2010. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and contributions are made to the defined benefit scheme at the rate of 12% of members' salaries.

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

Amounts recognised in the balance sheet arising from the Banking Group's obligations in respect of its defined benefit scheme are as follows:

	The Banking Group and the Bank	
	2010 $m	2009 $m
Benefit obligation at end of the year	**108**	96
Fair value of scheme assets at end of the year	**(77)**	(76)
Net recognised liability	**31**	20
Contribution tax	**16**	10
Net recognised liability including contribution tax	**47**	30
Movement in the net liability recognised in the balance sheet		
Opening liability with contribution tax	**30**	64
Superannuation expense with contribution tax	**(1)**	2
Employer contributions including contribution tax	**(9)**	(6)
Amount of losses/(gains) recognised in equity with contribution tax	**27**	(30)
Closing liability with contribution tax	**47**	30
Superannuation expense recognised in the income statement		
Current service cost	**1**	1
Interest cost	**3**	5
Expected return of fund assets	**(5)**	(5)
Net defined benefit (income)/expense	**(1)**	1

Note 31 Superannuation commitments (continued)

	The Banking Group and the Bank	
	2010	2009
	$m	$m
Change in present value of defined benefit obligation		
Benefit obligation at beginning of the year	**96**	117
Current service cost	**1**	1
Interest cost	**3**	5
Actuarial loss/(gain)	**17**	(20)
Benefits paid	**(8)**	(8)
Exchange and other adjustments	**(1)**	1
Benefit obligation at end of the year	**108**	96
Change in fair value of scheme assets		
Fair value of scheme assets at beginning of the year	**76**	74
Expected return on scheme assets	**5**	5
Employer contributions	**6**	5
Actuarial loss	**(2)**	-
Benefits paid	**(8)**	(8)
Fair value of scheme assets at end of the year	**77**	76
Amounts recognised in equity		
Cumulative amount of loss recognised in equity at beginning of the year	**-**	20
Immediate recognition of loss/(gain)	**19**	(20)
Cumulative amount of loss recognised in equity at end of the year	**19**	-
Value of scheme assets		
Invested in Ultimate Parent Bank's debt and equity securities	**9**	6
Actual return on scheme assets	**3**	5
Expected employer contributions (net)	**4**	6

	The Banking Group and the Bank	
	2010	2009
	%	%
Primary actuarial assumptions used in the above calculations		
Discount rate	**3.7**	4.0
Expected return on scheme assets – active members (end of year)	**6.0**	6.4
Expected return on scheme assets – pensioners	**6.0**	6.4
Rate of increase in salaries	**3.5**	2.0
Rate of increase for pensions	**2.5**	1.5
Asset allocation		
Cash	**0.9**	1.3
Equity instruments	**56.7**	57.9
Debt instruments	**42.4**	40.8
Total asset allocation	**100.0**	100.0

	The Banking Group and the Bank				
	2010	2009	2008	2007	2006
	$m	$m	$m	$m	$m
Historical summary					
Defined benefit scheme obligations	**108**	96	117	110	131
Scheme assets	**(77)**	(76)	(74)	(99)	(113)
Net deficit	**31**	20	43	11	18
Experience adjustments on scheme assets	**(2)**	-	(23)	2	8
Experience adjustments on scheme liabilities	**(17)**	20	(10)	1	2

Expected rate of return on assets assumptions

The assumed return on assets reflects the average rate of earnings expected in the long-term on the scheme's assets. Accordingly this rate reflects allowances for tax and all investment expenses. The expected returns on assets were calculated as the weighted average return based on the benchmark asset allocation and estimates of the expected future return in each sector in each asset class (consistent with the inflation assumption).

Note 32 Key management personnel disclosures

Key management personnel 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	
	Year ended 30 September 2010 $'000	Year ended 30 September 2009 $'000
Salaries and other short-term benefits	**7,918**	7,446
Post-employment benefits	**692**	636
Other termination benefits	**349**	-
Share-based payments	**3,736**	2,796
Total key management compensation	**12,695**	10,878

The Directors have received remuneration from the Banking Group and these amounts are included in the table above.

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 30 September 2010 no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2009: nil).

Other key management personnel transactions

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

Note 33 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**'), the Westpac Performance Plan ('**WPP**') and the Senior Officers' Share Purchase Scheme ('**SOSPS**'). The Bank compensates the Ultimate Parent Bank for the equity granted to employees.

(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 rewarding superior long-term performance from the most senior management in Australia, New Zealand and other countries.

Under the WRP, senior managers may be invited to receive an award of performance share rights. The exercise price for performance share rights is nil. The share rights 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 share rights 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.

For Banking Group employees performance options with a three to five-year vesting period were granted under the WRP until March 2009 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 shares of the Ultimate Parent Bank.

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 the Ultimate Parent Bank's TSR ranking is at or above the median of the comparator 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 share rights and 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 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 of a performance option is payable at that time. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

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 33 Share-based payments (continued)

WRP Performance options

The following table sets out the details of outstanding performance options granted to employees of the Banking Group and Bank under the WRP:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
17 December 2007	**17 December 2017**	**30.10**	**74,852**	**(26,305)**	-	-	-	**48,547**	-
1 October 2008	**1 October 2018**	**23.40**	**90,214**	**(15,533)**	-	-	**(4,505)**	**70,176**	**3,766**
1 March 2009	**1 March 2019**	**16.49**	**260,869**	-	-	-	-	**260,869**	-
Totals for the year ended 30 September 2010			**425,935**	**(41,838)**	-	-	**(4,505)**	**379,592**	**3,766**
Weighted average exercise price ($)			**20.35**	**27.00**	-	-	**23.40**	**19.51**	**23.40**
Totals for the year ended 30 September 2009			74,852	-	351,083	-	-	425,935	-
Weighted average exercise price ($)			31.10	-	18.27	-	-	20.35	-

The weighted average remaining contractual life of outstanding performance options at 30 September 2010 was 8.2 years (30 September 2009: 9.2 years).

WRP Performance share rights

The following table sets out the details of outstanding performance share rights granted to employees of the Banking Group and Bank under the WRP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
1 October 2009	**1 October 2019**	-	**(3,385)**	**54,535**	-	**(1,554)**	**49,596**	-
Totals for the year ended 30 September 2010		-	**(3,385)**	**54,535**	-	**(1,554)**	**49,596**	-
Totals for the year ended 30 September 2009		-	-	-	-	-	-	-

The weighted average fair value at the grant date of performance share rights issued during the year ended 30 September 2010 was $15.31 per right (30 September 2009: nil). The weighted average remaining contractual life of outstanding performance share rights at 30 September 2010 was 9.0 years (30 September 2009: nil years).

(ii) Westpac Performance Plan

For Banking Group employees 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 one 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 Banking Group employees performance options with a three to five-year vesting period were granted under the WPP up 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 shares 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 to Banking Group employees 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 resource companies).
- For grants made from December 2005 to December 2006, 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. A performance option or a performance right lapses if it is not exercised prior to the end of its term.

Note 33 Share-based payments (continued)

WPP Performance options

The following table sets out the details of outstanding performance options granted to the employees of the Banking Group and the Bank under the WPP:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
21 January 2004	**21 January 2014**	**16.34**	**27,106**	**-**	**-**	**-**	**-**	**27,106**	**27,106**
20 January 2005	**20 January 2015**	**18.98**	**22,474**	**-**	**-**	**-**	**-**	**22,474**	**22,474**
20 December 2005	**20 December 2015**	**20.53**	**41,812**	**-**	**-**	**-**	**-**	**41,812**	**41,812**
15 December 2006	**15 December 2016**	**23.98**	**64,047**	**(21,349)**	**-**	**-**	**-**	**42,698**	**42,698**
Totals for the year ended 30 September 2010			**155,439**	**(21,349)**	**-**	**-**	**-**	**134,090**	**134,090**
Weighted average exercise price ($)			**21.00**	**23.98**	**-**	**-**	**-**	**20.52**	**20.52**
Totals for the year ended 30 September 2009			169,627	-	-	(6,236)	(7,952)	155,439	91,392
Weighted average exercise price ($)			20.06	-	-	18.21	21.67	21.00	18.91

The weighted average remaining contractual life of outstanding performance options at 30 September 2010 was 5.0 years (30 September 2009: 6.0 years).

WPP Performance share rights

The following table sets out the details of outstanding performance share rights granted to the employees of the Banking Group and the Bank under the WPP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
20 January 2003	**20 January 2013**	**11,463**	**-**	**-**	**-**	**-**	**11,463**	**11,463**
21 January 2004	**21 January 2014**	**30,246**	**-**	**-**	**(18,126)**	**-**	**12,120**	**12,120**
20 January 2005	**20 January 2015**	**24,898**	**-**	**-**	**(9,654)**	**-**	**15,244**	**15,244**
20 December 2005	**20 December 2015**	**47,960**	**-**	**-**	**(17,445)**	**-**	**30,515**	**28,849**
15 December 2006	**15 December 2016**	**4,333**	**-**	**-**	**-**	**-**	**4,333**	**4,333**
Totals for the year ended 30 September 2010		**118,900**	**-**	**-**	**(45,225)**	**-**	**73,675**	**72,009**
Totals for the year ended 30 September 2009		219,787	-	-	(93,850)	(7,037)	118,900	118,900

The weighted average share price of performance share rights exercised during the year ended 30 September 2010 was $25.63 per right (30 September 2009: $18.71 per right). The weighted average remaining contractual life of outstanding performance share rights at 30 September 2010 was 4.3 years (30 September 2009: 5.3 years).

WPP Unhurdled share rights

The WPP is also used for key Banking Group employees who receive unhurdled share rights that vest after a set period of one to three years service with the Ultimate Parent Bank Group. 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 unhurdled share rights to the employees of the Banking Group under the WPP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
15 December 2006	**15 December 2016**	**104,105**	**-**	**-**	**(61,563)**	**(838)**	**41,704**	**41,704**
2 April 2007	**2 April 2017**	**1,577**	**-**	**-**	**-**	**-**	**1,577**	**1,577**
3 September 2007	**3 September 2017**	**6,660**	**-**	**-**	**-**	**-**	**6,660**	**6,660**
1 November 2007	**1 November 2017**	**1,862**	**-**	**-**	**(1,862)**	**-**	**-**	**-**
17 December 2007	**17 December 2017**	**112,561**	**3,556**	**-**	**(9,796)**	**(6,959)**	**99,362**	**7,520**
1 July 2008	**1 July 2018**	**10,752**	**-**	**-**	**-**	**-**	**10,752**	**10,752**
1 September 2008	**1 September 2018**	**2,399**	**-**	**-**	**-**	**-**	**2,399**	**2,399**
1 October 2008	**1 October 2018**	**68,342**	**707**	**-**	**-**	**(2,377)**	**66,672**	**2,913**
1 December 2008	**1 December 2018**	**10,868**	**-**	**-**	**(7,848)**	**-**	**3,020**	**-**
1 January 2009	**1 January 2019**	**6,677**	**-**	**-**	**-**	**-**	**6,677**	**-**
1 February 2009	**1 February 2019**	**3,014**	**-**	**-**	**-**	**-**	**3,014**	**-**
1 March 2009	**1 March 2019**	**140,140**	**60**	**-**	**(58,177)**	**-**	**82,023**	**-**
1 June 2009	**1 June 2019**	**5,681**	**-**	**-**	**-**	**-**	**5,681**	**5,681**
1 October 2009	**1 October 2019**	**-**	**(1,484)**	**121,187**	**-**	**(1,509)**	**118,194**	**-**
1 November 2009	**1 November 2019**	**-**	**-**	**43,129**	**-**	**-**	**43,129**	**-**
1 January 2010	**1 January 2020**	**-**	**-**	**6,446**	**-**	**-**	**6,446**	**-**
Totals for the year ended 30 September 2010		**474,638**	**2,839**	**170,762**	**(139,246)**	**(11,683)**	**497,310**	**79,206**
Totals for the year ended 30 September 2009		284,056	-	334,426	(9,089)	(134,755)	474,638	6,660

Note 33 Share-based payments (continued)

The weighted average fair value at grant date of unhurdled share rights issued during the year ended 30 September 2010 was $21.63 per right (30 September 2009: $16.69 per right). The weighted average share price of unhurdled share rights exercised during the year ended 30 September 2010 was $24.54 per right (30 September 2009: $18.71 per right). The weighted average remaining contractual life of outstanding unhurdled share rights at 30 September 2010 was 8.1 years (30 September 2009: 7.0 years).

(iii) Senior Officers' Share Purchase Scheme

The SOSPS was approved by shareholders in December 1998. The plan was closed to new invitations in 2002.

The plan provided for the allocation of share options to selected executives and senior officers to acquire fully paid ordinary shares issued by the Ultimate Parent Bank. No consideration was payable for the grant of an option. The exercise price for each option was based on the prevailing market price of the ordinary shares at the time of the invitation, and the options have a ten-year life. Options granted under the SOSPS were subject to a tenure-based hurdle.

Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares upon payment of the exercise price. If an option is not exercised prior to the end of its term, it lapses.

The following table sets out details of outstanding options granted under the SOSPS:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
8 January 2001	**8 January 2011**	**13.26**	**45,000**	-	-	-	-	**45,000**	**45,000**
9 January 2002	**9 January 2012**	**14.65**	**40,000**	-	-	-	-	**40,000**	**40,000**
Totals for the year ended 30 September 2010			**85,000**	-	-	-	-	**85,000**	**85,000**
Weighted average exercise price ($)			**13.91**	-	-	-	-	**13.91**	**13.91**
Totals for the year ended 30 September 2009			85,000	-	-	-	-	85,000	85,000
Weighted average exercise price ($)			13.91	-	-	-	-	13.91	13.91

The weighted average remaining contractual life of options at 30 September 2010 under the SOSPS was 0.7 year (30 September 2009: 1.7 years).

Fair value at grant date

The fair value of performance share rights granted during the year ended 30 September 2010 included in the tables above have been independently calculated at grant date using a Binomial/Monte Carlo simulation pricing model and for which:

- the assumptions included in the valuation of the awards of performance share rights under the WRP include a risk free interest rate of 4.99%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and a volatility in the Ultimate Parent Bank's share price of 30%;
- the assumptions included in the valuation of the awards of unhurdled share rights under the WPP include a risk free interest rate ranging from 4.2% to 4.7%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5% and a volatility in the Ultimate Parent Bank's ordinary share price of 30%;
- 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, which are used to assess the impact of performance hurdles; and
- performance share rights have been valued assuming they will be exercised shortly after the vesting date.

Note 34 Securitisation, funds management and other fiduciary activities

Securitisation

As at 30 September 2010 the Bank and the Banking Group had securitised assets amounting to $416 million (30 September 2009: $523 million), which had been sold by the Bank and the Banking Group to the 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. The Bank and the Banking Group receive fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Bank and the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties.

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) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Reflecting the underlying movement in loan balances in the facility, the Bank executed a $1.5 billion substitution to the internal mortgage-backed securitisation programme in September 2009 to ensure the appropriate quality and total value able to be securitised were maintained. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions become difficult. It takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer securitised residential mortgage assets from their own balance sheets as collateral for the Reserve Bank'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 branches, 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.

The Term PIE is administered by the Banking Group (refer to Note 26 for further details) and invests in deposits with the Bank. The Bank is considered to control the Term PIE, and as such the Term PIE is consolidated within the financial statements of the Banking Group. As at 30 September 2010 $316 million (30 September 2009: $17 million) of funds under management were invested by the Term PIE in the Bank's deposits.

Note 34 Securitisation, funds management and other fiduciary activities (continued)

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 fully underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

Risk management

The Banking Group's risk management framework (refer to Note 37) will help to minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the year ended 30 September 2010:

- 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 three months ended 30 September 2010 (three months ended 30 September 2009: nil).

In October 2008 and December 2008 the Banking Group provided 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 three months ended 30 September 2010 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 30 September 2010 was nil (three months ended 30 September 2009: 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 nil (30 September 2009: nil). 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 nil (30 September 2009: nil).

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.

Note 35 Insurance business

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

Note 36 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.

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 in supervising the Banking Group.

During the year ended 30 September 2010 the Banking Group complied in full with all its externally imposed capital requirements.

Capital management

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

The Banking Group manages its capital structure and makes adjustments in 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 payments 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 are designed to ensure that the Banking Group's capital is adequate to support its current and future activities:

1. The Board has approved a risk appetite statement. This statement outlines the target debt rating, target capital ratios and the degree of earnings volatility that is acceptable for the year ended 30 September 2010, and until 21 October 2010, the minimum tier one ratio target was 6.8% and the minimum total regulatory ratio target was 8.8%. Following a review of the 2010 internal capital adequacy process ('**ICAAP**') the Board approved increases in the target capital structure effective from 21 October 2010. From that date, the minimum tier one ratio target is 8.5% and the minimum total regulatory ratio target is 10.5%.
2. The Banking Group calculates the capital 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.
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 are made.

Note 36 Capital adequacy (continued)

Summary of ICAAP

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process (ICAAP)' (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. 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, minimum prudential capital ratios, thin capitalisation requirements and peer group comparatives.

Banking Group capital summary

	The Banking Group	
	2010 Unaudited $m	2009 Unaudited $m
Tier One Capital		
Paid up share capital	**3,470**	3,470
Revenue and similar reserves[1]	**308**	23
Current year's retained profits	**264**	264
Minority interests	**6**	7
Less deductions from Tier One Capital		
Goodwill	**(477)**	(477)
Other intangible assets	**(90)**	(98)
Cash flow hedge reserve	**1**	15
Deferred tax asset deduction	**(70)**	(23)
Expected loss excess over eligible allowance	**(6)**	(31)
Total Tier One Capital	**3,406**	3,150
Tier Two Capital – Upper Tier Two Capital		
Perpetual subordinated notes	**970**	970
Less deductions from Tier Two Capital		
Expected loss excess over eligible allowance	**(6)**	(31)
Tier Two Capital – Lower Tier Two Capital	**-**	-
Total Tier Two Capital	**964**	939
Total Capital	**4,370**	4,089

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

Basel II

The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for 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 the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group	
	2010 Unaudited %	2009 Unaudited %
Capital adequacy ratios		
Tier One Capital expressed as a percentage of risk-weighted exposures	**9.9**	9.5
Total Capital expressed as a percentage of risk-weighted exposures	**12.7**	12.3
Reserve Bank minimum ratios		
Tier One Capital expressed as a percentage of risk-weighted exposures[1]	**4.0**	4.0
Total Capital expressed as a percentage of risk-weighted exposures	**8.0**	8.0

1 In addition to this minimum 4% locally incorporated registered banks having the benefit of the Wholesale Funding Guarantee Facility are required to maintain an additional 2% Tier One Capital ratio buffer. See the 'Wholesale Guarantee' section on page 4 for more information.

Note 36 Capital adequacy (continued)

Banking Group Pillar I total capital requirement

	2010			2009		
	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	**65,169**	**28,305**	**2,265**	65,400	28,276	2,262
Operational risk	**N/A**	**3,480**	**278**	N/A	2,834	227
Market risk	**N/A**	**988**	**80**	N/A	651	52
Supervisory adjustment	**N/A**	**1,606**	**128**	N/A	1,543	123
Total	**65,169**	**34,379**	**2,751**	65,400	33,304	2,664

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

Pillar II capital for other material risk

The Banking Group's ICAAP identifies and measures all "other material risk", which is a combination of business risk, liquidity risk and other asset risk. These risks are defined as:

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 potential inability to meet payment obligations as they come due, without incurring unacceptable losses.

Other asset risk

Other asset risk reflects the strategic risk associated with the composition of the balance sheet that is not reflected in other risk categories.

The Banking Group's internal capital allocation for this "other material risk" is:

	The Banking Group	
	2010 Unaudited $m	2009 Unaudited $m
Internal capital allocation		
Other material risk	**352**	394

Basel I

The table below is disclosed in accordance with Schedule 5B, Clause 15 of the Order and represents the 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 there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue 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	
	2010 Unaudited %	2009 Unaudited %	**2010 Unaudited %**	2009 Unaudited %
Capital adequacy ratios				
Tier One Capital expressed as a percentage of risk-weighted exposures	**9.3**	8.9	**7.6**	7.2
Total Capital expressed as a percentage of risk-weighted exposures	**12.0**	11.6	**9.8**	9.5
Total risk-weighted exposures ($m)	**36,507**	35,626	**44,177**	43,207

Ultimate Parent Bank Group Basel II capital adequacy ratios

Basel II

	2010 Unaudited %	2009 Unaudited %
Ultimate Parent Bank Group[1]		
Tier One Capital expressed as a percentage of risk-weighted exposures	**9.1**	8.1
Total Capital expressed as a percentage of risk-weighted exposures	**11.0**	10.8
Ultimate Parent Bank (Extended Licensed Entity)[1, 2]		
Tier One Capital expressed as a percentage of risk-weighted exposures	**9.2**	9.9
Total Capital expressed as a percentage of risk-weighted exposures	**11.5**	12.4

1 The capital ratios represent information mandated by APRA.

2 The capital ratios of the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Basel II Pillar 3 report.

Note 36 Capital adequacy (continued)

Basel II came into force on 1 January 2008. The Ultimate Parent Bank Group received accreditation from APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') and Advanced Measurement Approach ('**AMA**') methodologies for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB 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 30 September 2010. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 37 Risk management

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 governance framework that includes core risk principles as well as policies and processes for measuring and monitoring risk ('**Risk Governance Framework**').

Risk management framework and governance

The Board is responsible for determining the Bank's appetite for risk. 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 Governance Framework is closely aligned with the Ultimate Parent Bank's Risk Governance Framework ('**Group Risk Governance Framework**').

The Board is supported by the NZBAC and the Bank's Board Risk Management Committee ('**Bank's BRMC**'), 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 of which two are 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 Bank's BRMC comprises all of the non-executive Directors of the Board. The Bank's BRMC has power delegated by the Board to set risk appetites and approve frameworks, policies and processes for the management of risk. The Bank's BRMC approves the Risk Governance Framework at least every two years.

The Bank's Risk Governance Framework is designed to reflect that the Bank is responsible for identifying and managing risk and operating within the Bank's desired risk profile. Effective risk management is about achieving a balanced approach to risk and reward, and enables the Bank to both increase financial growth opportunities and mitigate potential loss or damage. Optimisation and mitigation strategies are equally important, along with maintaining an appropriate segregation of duties.

The Risk Governance Framework is owned by the Bank's Chief Risk Officer ('**CRO**'). Implementation is achieved through developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

Risk types

The Bank maintains a risk reward oriented approach to creating shareholder value utilising a measurement framework covering all material risk classes. The Bank distinguishes between different risk types and takes an integrated approach to managing them. These key risks are:

- Liquidity risk: the risk that the Bank will not be able to fund assets and meet obligations as they come 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 of an adverse impact on earnings resulting 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.
- Compliance risk: the risk of legal or regulatory sanction, financial or reputational 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 adverse 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 inadequacies of 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.
  - Related entity (contagion) risk – the risk that problems arising in other members of the Banking Group may compromise the financial position of the Bank.

The essential elements applied to these risks are:

- observable linkages between strategy, risk appetite, risk and reward, and capital adequacy;
- clearly defined accountabilities, responsibilities and authorities;
- an appropriate level of risk management resources with the skills required to fulfil their responsibilities and support the strategy;
- clearly defined operating structures, reporting lines and governance structures;
- clear goals, objectives and incentives, including an appropriate risk-focused component of employee performance measurement;

Note 37 Risk management (continued)

- processes and systems that facilitate effective:
  - risk identification, analysis, evaluation and quantification;
  - consideration of risk avoidance or mitigation;
  - acceptance and management of residual risk;
  - capture and reporting of risk data for both internal and external purposes;
  - risk-adjusted measurement where there are rewards for taking risk; and
  - risk oversight and analysis, including stress testing; and
- assurance processes which ensure that risk-related practices and controls are appropriately embedded and are effective, and comply with internal, regulatory and legislative requirements.

Management assurance programme

The Bank has an Executive Risk and Audit Committee ('**ERAC**') which meets quarterly, and which oversees credit, operational, compliance and reputational risks within the context of the Bank's risk appetite as determined by Bank's BRMC as well as an Asset and Liability Committee ('**ALCO**') that leads the management of balance sheet risk and oversees market risk and equity risk within the context of the Bank's risk tolerance also determined by the Bank's BRMC.

The Banking Group has a management assurance programme designed to identify the key operational and compliance 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. The results of this process are reported to the ERAC. 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 New Zealand Group Assurance unit

The Banking Group has an independent assurance unit ('**New Zealand Group Assurance**') comprised of a New Zealand based Group Audit team, supported by the Ultimate Parent Bank Portfolio Risk Review and Model Risk Review functions, which reports to the NZBAC, as well as to the Ultimate Parent Bank.

New Zealand Group Assurance, 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 New Zealand Group Assurance 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 New Zealand Group Assurance reports on a quarterly basis, or more often as deemed appropriate, to the NZBAC, to agree the budget and the annual assurance plan and to report its findings. In addition, the NZBAC has private sessions with the Head of New Zealand Group Assurance. Furthermore, the Head of New Zealand Group Assurance reports to the Chair of the NZBAC, and for administrative purposes to the NZ Chief Financial Officer ('**CFO**'), a member of the Bank's Executive Team, and the Ultimate Parent Bank's General Manager Group Assurance.

Reviews in respect of risk management systems

New Zealand Group Assurance 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 Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit and model risk. New Zealand Group Assurance, with support from the Ultimate Parent Bank's Group Assurance unit, also periodically reviews the Bank's Operational, Market, Funding and Liquidity Risk Frameworks.

The reviews discussed above in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank, though they are independent and have no direct authority over the activities of management.

With a view to continuously improving risk management, the Bank also commissioned two external risk reviews that concluded during the year ended 30 September 2010. The reviews were focused on risk governance and risk management practices. The findings of both reviews were considered by the Bank's Board and the ERAC. The Bank's risk framework has been improved and its risk management capability enhanced as a result of these reviews.

37.1 Compliance and operational risk

The Bank's ERAC, chaired by the Bank's CRO, meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. ERAC monitors the business unit operational risk profiles and the action plans, and has the discretion to escalate material matters to the Bank's BRMC and/or the relevant Ultimate Parent Bank Group Risk Committee.

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 the 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.

The Bank has a dedicated Operational Risk and Compliance function. Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

Note 37 Risk management (continued)

Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential, 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 has a dedicated Operational Risk function which 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 and monitoring.

The Bank has implemented the AMA methodology for calculating operational risk capital. An outline of this methodology, as set out below, takes into consideration both internal and external factors. Economic capital is allocated across the business lines as a mitigant, and is not used in the Bank's calculation of operational risk capital.

Calculating operational risk capital

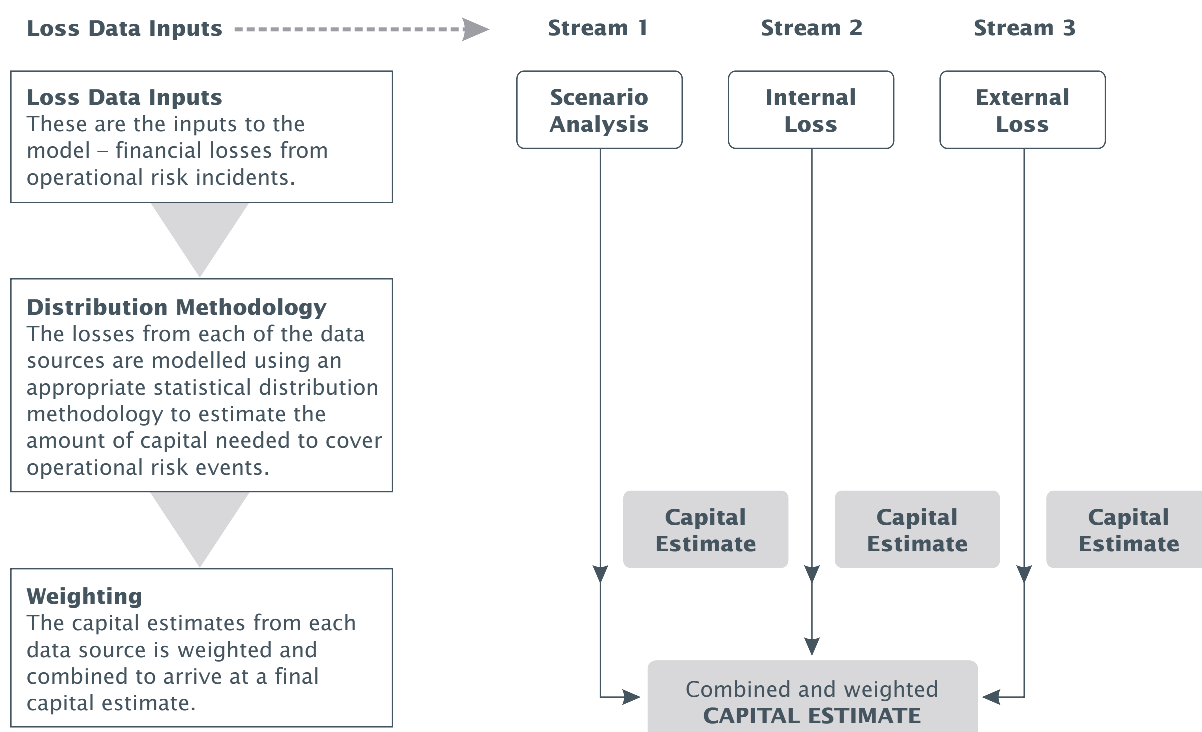
The calculation of operational risk capital is designed to estimate the amount of capital required to withstand losses from extreme unexpected operational risk events in future years. The Banking Group adopts a hybrid approach, relying on a variety of data sources that combines actual loss experience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

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:

- covering smaller/frequent losses and larger/infrequent losses via scenario analysis;
- providing for losses previously experienced by the Banking Group; and
- utilising loss history from peers with similar business models.

Together these three streams give an indication of the future losses that are possible. The diagram below provides an overview of this process for calculating operational risk capital:



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, model methodology, 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.

Note 37 Risk management (continued)

The following table sets out the Banking Group's implied risk-weighted exposures under the AMA methodology and the operational risk capital requirement:

	2010		2009	
	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
Methodology implemented				
Advanced Measurement Approach				
Operational risk	**3,480**	**278**	2,834	227

37.2 Funding and liquidity risk

Liquidity risk is the potential inability to fund assets and meet our payment obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the Bank's balance sheet due to mismatches in the maturity of assets and liabilities. This risk is managed through the Bank's BRMC approved liquidity risk management framework.

Responsibility for liquidity management is delegated to the Bank's CFO under the oversight of the Bank's CEO. The Bank's Treasury unit reports to the CFO and manages the liquidity position on a day to day basis. Liquidity risk positions are modelled and reported daily. Independent oversight is provided by the Head of Market Risk in conjunction with the Bank's CRO, with executive oversight provided by the Bank's ALCO. Monthly reporting of liquidity and funding risk is provided to the Bank's ALCO. Quarterly reporting is presented to the Bank's BRMC who also approve the funding strategy, liquidity limits structure and liquidity risk management framework. In addition, reporting is also provided to the Ultimate Parent Bank's Banking Book Risk Committee ('**BBRC**') and Asset and Liability Committee ('**Group ALCO**').

The Bank aims to operate a mix of retail and wholesale funding, with emphasis on the value of core funding consistent with the principles inherent in BS13.

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework review

The liquidity risk management framework (the '**framework**') is owned by the Bank's CRO and approved by the Bank's BRMC. The framework covers all aspects of liquidity risk including:

- roles and responsibilities;
- measurement and modelling approaches;
- contingency planning;
- principal framework components, policies and reports along with the frequency of review and authority for approval;
- liquidity risk limits;
- scenarios covered;
- limit determination; and
- minimum holdings of liquid assets.

The framework is reviewed at least every two years and submitted to the Bank's BRMC for endorsement.

Daily liquidity modelling and reporting

The Bank is subject to the conditions of the Reserve Bank's liquidity policy, BS13. Accordingly, with effect from 1 April 2010, the following metrics are calculated and reported on a daily basis in accordance with BS13:

- the level of liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

In addition, the Bank calculates the following liquidity ratios in accordance with the Ultimate Parent Bank's liquidity risk framework under APS 210 Liquidity:

- a going concern scenario; and
- a name crisis scenario.

Reports are circulated daily to the Bank's Treasury, Risk and Finance personnel, including the Bank's CRO and CFO. Exceptions to internal limits are escalated immediately to the Committee delegating the limit.

Annual funding plan

Each financial year the Bank's Treasury unit undertakes a comprehensive review resulting in the preparation of the Bank's annual funding plan. This review outlines the current funding strategy, proposes 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.

Note 37 Risk management (continued)

The Bank's annual funding plan is reviewed by ALCO prior to approval by the Bank's BRMC.

Contingency planning

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

- 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 and debt investor contact points.

Sources of liquidity

The principal sources of liquidity for the Bank are:

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

Wholesale funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instruments. The Bank and its wholly owned subsidiary WSNZL maintain funding programmes for both short and long-term debt in several jurisdictions including New Zealand, Europe and the United States.

	The Banking Group					
	2010			2009		
Markets	**Issuer**	**Programme Type**	**Programme Limit**	Issuer	Programme Type	Programme Limit
Euro market	**Ultimate Parent Bank/ WSNZL[1]**	**Euro Commercial Paper and Certificate of Deposit Programme**	**US$20 billion**	Ultimate Parent Bank/ WSNZL[1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	**WSNZL[1]**	**Programme for Issuance of Debt Instruments**	**US$7.5 billion**	WSNZL[1]	Programme for Issuance of Debt Instruments	US$7.5 billion
United States	**WSNZL[1]**	**Section 4(2) US Commercial Paper Programme**	**US$10 billion**	WSNZL[1]	Section 4(2) US Commercial Paper Programme	US$7.5 billion
United States	**WSNZL[1]**	**Medium-term Note Programme**	**US$10 billion**	-	-	-
New Zealand	**The Bank**	**Medium-term Note and Registered Certificate of Deposit Programme**	**No limit**	The Bank	Medium-term Note and Registered Certificate of Deposit Programme	No limit

1 Notes issued by WSNZL are guaranteed by the Bank.

Liquid assets

The table below shows the Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets (including cash, government securities, registered certificates of deposit issued by other banks and residential mortgage-backed securities) readily convertible to cash to meet the Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Banking Group's present requirements.

	The Banking Group	
	2010 $m	2009 $m
Cash	**399**	32
NZ Government securities	**1,840**	2,479
NZ corporate securities	**1,206**	2,052
Residential mortgage-backed securities	**6,092**	4,278
Total liquid assets	**9,537**	8,841

Note 37 Risk management (continued)

Liquidity analysis

The following liquidity analysis for 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. The total balances in the tables below may not agree to the balance sheet as these tables incorporate all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

	The Banking Group						
	2010						
	Overnight $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	522	-	-	-	-	-	522
Due from other financial institutions	3	-	-	-	-	-	3
Derivative financial instruments:							
Held for trading	17	-	-	-	-	-	17
Trading securities and other financial assets designated at fair value	-	1,217	1,031	351	-	-	2,599
Available-for-sale securities	-	-	-	-	44	-	44
Loans	2,830	2,183	3,991	5,755	19,006	51,541	85,306
Due from related entities:							
Non-derivative balances	830	-	-	-	-	-	830
Other assets	-	143	-	-	-	-	143
Total undiscounted financial assets	4,202	3,543	5,022	6,106	19,050	51,541	89,464
Liabilities							
Deposits at fair value	13	402	1,386	200	-	-	2,001
Deposits at amortised cost	14,203	1,955	4,942	8,965	1,052	-	31,117
Debt issues	-	701	3,011	3,835	7,492	1,645	16,684
Other liabilities	-	494	-	-	-	-	494
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances	491	-	-	-	48	-	539
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	27	83	114	110	(1)	333
Held for hedging purposes (gross settled):							
Cash outflow	-	25	55	243	6,349	1,638	8,310
Cash inflow	-	-	(26)	(155)	(5,333)	(1,514)	(7,028)
Total undiscounted financial liabilities	14,990	3,604	9,451	13,202	9,718	2,738	53,703
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	105	-	-	-	-	-	105
Other commitments to provide financial services which have an original maturity of one year or more	5,925	-	-	-	-	-	5,925
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,487	-	-	-	-	-	4,487
Total undiscounted contingent liabilities and commitments	10,517	-	-	-	-	-	10,517

Note 37 Risk management (continued)

	The Banking Group						
	2009						
	Overnight $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	213	-	-	-	-	-	213
Due from other financial institutions	3	-	-	-	-	-	3
Derivative financial instruments:							
Held for trading	22	-	-	-	-	-	22
Trading securities and other financial assets designated at fair value	-	1,227	1,773	1,559	-	-	4,559
Available-for-sale securities	-	-	-	-	37	-	37
Loans	1,955	1,985	4,288	5,044	19,039	52,581	84,892
Due from related entities:							
Non-derivative balances	576	-	-	-	-	-	576
Other assets	-	142	-	-	-	-	142
Total undiscounted financial assets	2,769	3,354	6,061	6,603	19,076	52,581	90,444
Liabilities							
Deposits at fair value	159	1,295	1,839	361	14	-	3,668
Deposits at amortised cost	14,211	1,449	5,383	6,742	1,624	1	29,410
Trading liabilities and other financial liabilities designated at fair value	-	254	1,639	-	-	-	1,893
Debt issues	-	1,819	2,976	2,322	6,340	52	13,509
Other liabilities	-	494	-	-	-	-	494
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances	723	-	-	-	48	-	771
Derivative financial instruments:							
Held for trading	513	-	-	-	-	-	513
Held for hedging purposes (net settled)	-	34	137	306	135	-	612
Held for hedging purposes (gross settled):							
Cash outflow	-	14	24	127	4,709	-	4,874
Cash inflow	-	-	(26)	(74)	(3,765)	-	(3,865)
Total undiscounted financial liabilities	15,606	5,359	11,972	9,784	9,105	1,023	52,849
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	208	-	-	-	-	-	208
Other commitments to provide financial services which have an original maturity of one year or more	6,502	-	-	-	-	-	6,502
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	3,978	-	-	-	-	-	3,978
Total undiscounted contingent liabilities and commitments	10,688	-	-	-	-	-	10,688

Note 37 Risk management (continued)

	The Bank						
	2010						
	Overnight $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	522	-	-	-	-	-	522
Derivative financial instruments:							
Held for trading	17	-	-	-	-	-	17
Trading securities and other financial assets designated at fair value	-	1,217	1,031	351	-	-	2,599
Available-for-sale securities	-	-	-	-	44	-	44
Loans	2,830	2,183	3,917	5,755	19,006	51,541	85,232
Due from related entities:							
Non-derivative balances	831	-	77	285	1,837	9,069	12,099
Other assets	-	142	-	-	-	-	142
Total undiscounted financial assets	4,200	3,542	5,025	6,391	20,887	60,610	100,655
Liabilities							
Deposits at fair value	13	402	1,386	200	-	-	2,001
Deposits at amortised cost	14,203	1,890	4,865	8,784	1,049	-	30,791
Debt issues	-	21	58	729	1,819	131	2,758
Other liabilities	-	420	-	-	-	-	420
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances[1]	893	680	3,030	3,391	7,558	10,583	26,135
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	27	83	114	110	(1)	333
Held for hedging purposes (gross settled):							
Cash outflow	-	25	55	243	6,349	1,638	8,310
Cash inflow	-	-	(26)	(155)	(5,333)	(1,514)	(7,028)
Total undiscounted financial liabilities	15,392	3,465	9,451	13,306	11,552	11,807	64,973
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	105	-	-	-	-	-	105
Other commitments to provide financial services which have an original maturity of one year or more	5,925	-	-	-	-	-	5,925
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,349	-	-	-	-	-	4,349
Total undiscounted contingent liabilities and commitments	10,379	-	-	-	-	-	10,379

1 The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. Hence, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Note 37 Risk management (continued)

	The Bank						
	2009						
	Overnight $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	212	-	-	-	-	-	212
Derivative financial instruments:							
Held for trading	22	-	-	-	-	-	22
Trading securities and other financial assets designated at fair value	-	1,227	1,773	1,559	-	-	4,559
Available-for-sale securities	-	-	-	-	37	-	37
Loans	1,955	1,985	4,220	5,044	19,032	52,492	84,728
Due from related entities:							
Non-derivative balances	629	-	68	259	2,100	9,294	12,350
Other assets	-	139	-	-	-	-	139
Total undiscounted financial assets	2,818	3,351	6,061	6,862	21,169	61,786	102,047
Liabilities							
Deposits at fair value	159	1,295	1,839	361	14	-	3,668
Deposits at amortised cost	14,211	1,433	5,383	6,742	1,624	1	29,394
Trading liabilities and other financial liabilities designated at fair value	-	254	1,639	-	-	-	1,893
Debt issues	-	21	298	138	2,300	52	2,809
Other liabilities	-	441	-	-	-	-	441
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances[1]	801	1,798	2,746	2,444	6,189	9,294	23,272
Derivative financial instruments:							
Held for trading	513	-	-	-	-	-	513
Held for hedging purposes (net settled)	-	34	137	306	135	-	612
Held for hedging purposes (gross settled):							
Cash outflow	-	14	24	127	4,709	-	4,874
Cash inflow	-	-	(26)	(74)	(3,765)	-	(3,865)
Total undiscounted financial liabilities	15,684	5,290	12,040	10,044	11,206	10,317	64,581
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	208	-	-	-	-	-	208
Other commitments to provide financial services which have an original maturity of one year or more	6,502	-	-	-	-	-	6,502
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	3,779	-	-	-	-	-	3,779
Total undiscounted contingent liabilities and commitments	10,489	-	-	-	-	-	10,489

1 The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. Hence, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

37.3 Credit risk

Credit risk is the 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 from the Banking Group's lending activities and from interbank, treasury and international trade activities.

Credit risk management

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 PD. Each facility is assigned a LGD taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of exposures 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 PDs, and LGDs are assigned for each segment based on historic experience and management judgment.

Note 37 Risk management (continued)

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 corporates, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the Bank's BRMC along with a strategy addressing the ongoing management of the excess.

All business units produce regular delinquency reports that detail excesses and delinquency 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. Compliance with these policies is 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 the 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 New Zealand. 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 the time of default, thus reducing overall exposure.

The Banking Group also 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 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 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.

Internal credit risk rating system

The principal objective of the credit risk rating system is to produce a reliable quantitative assessment of the credit risk to which the Banking Group is exposed.

The Banking Group's internal credit risk rating system for transaction-managed customers assigns a CRG to each customer, corresponding to their expected PD and 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.

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

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 characteristics of default. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('**EAD**').

The Banking Group's credit risk rating system is reviewed 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 credit risk rating system is applied consistently across the Banking Group, the Ultimate Parent Bank Group's Portfolio Risk Review team independently review end-to-end technical and operational aspects of the overall process. 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 ERAC and by the Ultimate Parent Bank Group Credit Risk Estimates Committee for utilisation within the Banking Group.

Note 37 Risk management (continued)

Use of internal credit risk estimates

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

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, Total Committed Exposure and loan tenor as well as measures of portfolio composition not reflected in regulatory capital formulae[1].

Pricing

The Banking Group prices loans so as to produce an acceptable return on the economic capital allocated to the loan, after expected credit losses (and other costs) are incurred. Estimates of economic capital and expected credit losses take into account estimates of PD, LGD and EAD.

Provisioning

Impairment 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 portfolio provisions use the risk grading framework and suitable PD, LGD and EADs assigned to each customer/facility as the basis for the calculation. Program-managed portfolios use estimated loss rates based on recent past experience as the primary basis of the calculation. These estimates are then adjusted for the specific requirements of the NZ IFRS accounting standards.

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.

Regulatory capital

Overview of internal credit risk ratings process by portfolio

The credit risk rating system is a key input to evaluate the level of capital to be held against loans for regulatory purposes.

Transaction-managed approach (including business lending, corporate, sovereign and bank)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgment decision-making process is employed to evaluate the CRG. The following represent the types of business lending, corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

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

All of the above exposure categories also apply to Specialised Lending, which is a sub-asset class of Corporate and in the Banking Group comprises Project and Property Finance. Regulatory risk-weights are also applied to Specialised Lending.

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

(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 Banking Group assigns an LGD to each credit facility, assuming an event of default has occurred, and taking into account a conservative estimate of the net realisable value of assets to which the Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposures in the customers' capital and debt structure.

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 therefore consists of initial outstanding balances plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCF's are all 100%.

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1 The Banking Group uses economic capital as the basis for risk-adjusted decision-making across the Banking Group and allows differences between economic and regulatory capital where such differences drive better medium-term to long-term business decisions.

Note 37 Risk management (continued)

Retail (program-managed) asset class approach (including residential mortgages, small business and other retail)
Each customer is rated using details of their account performance or application details and segmented into pools of similar risk. These 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 characteristics of default. The retail (program-managed) portfolio is divided into a number of segments per product with each segment assigned a quantified measurement of its PD, LGD and EAD.

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

(ii) 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.

(iii) 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		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Financial assets				
Cash and balances with central bank	**522**	213	**522**	212
Due from other financial institutions	**3**	3	**-**	-
Derivative financial instruments	**17**	22	**17**	22
Trading securities and other financial assets designated at fair value	**2,587**	4,421	**2,587**	4,421
Available for sale securities	**44**	37	**44**	37
Loans	**50,034**	48,174	**49,875**	48,015
Due from related entities	**830**	576	**8,331**	8,129
Other assets	**143**	142	**142**	139
Total financial assets	**54,180**	53,588	**61,518**	60,975
Contingent liabilities and commitments				
Direct credit substitutes	**52**	45	**52**	45
Loan commitments with certain drawdown	**105**	208	**105**	208
Transaction related contingent items	**254**	279	**254**	279
Short-term, self liquidating trade related contingent liabilities	**758**	678	**758**	678
Other commitments to provide financial services which have an original maturity of one year or more	**5,925**	6,502	**5,925**	6,502
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	**4,487**	3,978	**4,349**	3,779
Total contingent liabilities and commitments	**11,581**	11,690	**11,443**	11,491
Total maximum credit risk exposure	**65,761**	65,278	**72,961**	72,466

Note 37 Risk management (continued)

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

The Banking Group's total credit risk under the Basel II framework as at 30 September 2010 was as follows:

	Risk-weighted Exposure Unaudited $m	Minimum Capital Requirement Unaudited $m
Internal risk base		
Residential mortgages	11,351	908
Other retail	2,290	184
Small business	959	78
Corporate	2,467	197
Business lending	5,304	423
Sovereign	62	5
Bank	130	10
Equity	132	11
Specialised lending: Project and property finance	4,876	390
Standardised	734	59
Total	28,305	2,265

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 development 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 mortgages		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 37 Risk management (continued)

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 30 September 2010 (Unaudited)

PD Band (%)	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Residential mortgages						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	3,784	-	22	7	280	22
0.25 to 1.0	11,176	1	22	18	2,063	165
1.0 to 2.5	16,673	1	22	34	5,607	449
2.5 to 10.0	1,714	4	22	67	1,157	93
10.0 to 99.99	334	22	22	129	430	34
Default	889	100	22	204	1,814	145
Total	34,570	4	22	33	11,351	908
Other retail (Credit cards, personal loans, personal overdrafts)						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	1,063	-	63	41	434	35
1.0 to 2.5	768	2	68	88	678	54
2.5 to 10.0	705	5	66	102	720	58
10.0 to 99.99	186	22	66	147	273	22
Default	49	100	64	380	185	15
Total	2,771	5	65	83	2,290	184
Small business						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	598	1	18	14	84	7
1.0 to 2.5	1,442	2	18	24	346	28
2.5 to 10.0	515	5	21	33	172	14
10.0 to 99.99	40	29	20	52	21	2
Default	160	100	19	210	336	27
Total	2,755	8	19	35	959	78

PD Grade	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Banking Group – Corporate						
AAA	-	-	-	-	-	-
AA	8	-	60	11	1	-
A	148	-	60	37	54	4
BBB	336	-	52	48	160	13
BB	965	1	51	110	1,064	85
B	1	3	60	159	2	-
Other	360	22	57	305	1,097	88
Default	172	100	56	52	89	7
Total	1,990	13	53	124	2,467	197
Business lending						
AAA	-	-	-	-	-	-
AA	4	-	60	17	1	-
A	151	-	58	27	41	3
BBB	777	-	36	33	256	20
BB	5,784	2	28	57	3,295	264
B	177	3	30	67	118	9
Other	976	17	35	144	1,405	112
Default	131	100	38	143	188	15
Total	8,000	5	30	66	5,304	423

Note 37 Risk management (continued)

PD Grade	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Sovereign						
AAA	1,506	-	9	1	20	2
AA	-	-	60	6	-	-
A	520	-	15	6	29	2
BBB	96	-	20	14	13	1
BB	1	1	30	73	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	2,123	-	11	3	62	5
Bank						
AAA	-	-	-	-	-	-
AA	1,210	-	60	11	130	10
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	1,210	-	60	11	130	10

	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Equity						
Equity holdings (not deducted from capital) that are publicly traded	44	-	-	300	132	11

The following table summarises the Banking Group's credit risk exposures by asset class arising from undrawn commitments and other off-balance sheet exposures. These unaudited amounts are included in the above tables.

	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value $m	EAD $m	Value $m	EAD $m
Residential mortgages	5,428	536	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,615	1,096	-	-
Small business	928	517	-	-
Corporate	592	592	-	-
Business lending	998	998	-	-
Sovereign	210	210	-	-
Bank	-	-	-	-
Total	10,771	3,949	-	-

The Banking Group's Specialised Lending: Project and property finance credit risk exposures as at 30 September 2010 (Unaudited)

Supervisory slotting grade	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Strong	943	70	660	53
Good	1,614	90	1,453	116
Satisfactory	739	115	849	68
Weak	766	250	1,914	153
Default	251	-	-	-
Total	4,313	113	4,876	390

Note 37 Risk management (continued)

Additional information for Specialised lending: Project and property finance as at 30 September 2010 (Unaudited)

These amounts are included in the above table.

	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Undrawn commitments and other off-balance sheet amounts	**251**	**111**	**279**	**22**

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2010 (Unaudited)

Calculation of on-balance sheet exposures

	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	**270**	**100**	**270**	**22**
Related parties	**878**	**35**	**310**	**25**
Total on-balance sheet exposures	**1,148**		**580**	**47**

Calculation of off-balance sheet exposures

	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	**13,047**	**413**	**20**	**83**	**7**
Interest rate contracts	**42,308**	**145**	**20**	**29**	**2**
Total market related contracts subject to the standardised approach	**55,355**	**558**	**20**	**112**	**9**
Standardised subtotal				**692**	**56**
After adjustment for scalar				**734**	**59**

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2010 (Unaudited)

LVR range	0-60%	61-70%	71-80%	81-90%	Over 90%
Value of exposures	**12,279**	**5,849**	**8,365**	**4,923**	**2,948**

37.4 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 and equity prices. As the Ultimate Parent Bank's financial markets business in New Zealand is conducted by the Ultimate Parent Bank's NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). With the exception of the available-for-sale investment in Visa shares (refer Note 26), neither the Banking Group nor the Bank carries material foreign currency or equity price risk due to the risks being hedged with the Ultimate Parent Bank.

Non-traded market 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 and funding and liquidity risk are inherent in these activities. The Bank's Treasury unit is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

The Bank's Treasury unit 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 within the Market Risk Management Framework approved by the BRMC.

NII sensitivity

NII sensitivity is managed in terms of the net interest income-at-risk ('**NaR**') modelled over a one-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.

Note 37 Risk management (continued)

Limits

The BRMC has approved NaR and Value-at-risk ('**VaR**') limits for banking book risk across the Ultimate Parent Bank Group. A NaR sub limit has been assigned to the NZ Banking Group (which refers to all controlled entities of the Ultimate Parent Bank operating within New Zealand geography) and in addition structural limits, expressed as interest rate delta, are also in place for the NZ Banking Group.

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, including the balance sheet of the Bank.

Daily monitoring of current exposure and limit utilisation is conducted independently by the Head of Market Risk. 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 Ultimate Parent Bank's risk forums of Market Risk Committee 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 and fair value 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.

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B). The end-of-quarter aggregate market risk 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 capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

For each category of market risk, the Banking Group's peak end-of-day capital charge as a percentage of the Banking Group's equity is the peak end-of-day capital charge for that category of market risk divided by the Banking Group's equity as at 30 September 2010.

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

	The Banking Group 2010 Unaudited			The Banking Group 2009 Unaudited		
	Implied Risk-weighted Exposure $m	**Aggregate Capital Charge $m**	**Aggregate Capital Charge as a Percentage of the Banking Group's Equity %**	Implied Risk-weighted Exposure $m	Aggregate Capital Charge $m	Aggregate Capital Charge as a Percentage of the Banking Group's Equity %
End-of-period						
Interest rate risk	**900**	**72**	**1.78**	575	46	1.22
Foreign currency risk	**44**	**4**	**0.09**	37	3	0.08
Equity risk	**44**	**4**	**0.09**	37	3	0.08
Peak end-of-day						
Interest rate risk	**1,188**	**95**	**2.35**	1,313	105	2.79
Foreign currency risk	**44**	**4**	**0.09**	38	3	0.08
Equity risk	**44**	**4**	**0.09**	38	3	0.08

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.

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. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The Banking Group does not have any significant foreign currency and equity risk. The following table provides a summary of Interest Rate Risk VaR for the Banking Group's non-traded market risk activities.

	2010 $m	2009 $m
Interest rate risk	**0.44**	0.65

Note 37 Risk management (continued)

Interest rate sensitivity

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of 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 presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2010. 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.

	The Banking Group									
	2010									
	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
Financial assets										
Cash and balances with central banks	399	-	-	-	-	-	-	-	123	522
Due from other financial institutions	3	-	-	-	-	-	-	-	-	3
Derivative financial instruments	-	-	-	-	-	-	-	-	17	17
Trading securities and other financial assets designated at fair value	1,215	1,024	348	-	-	-	-	-	-	2,587
Available-for-sale securities	-	-	-	-	-	-	-	-	44	44
Loans	24,399	4,741	10,242	8,315	1,836	1,136	93	1	(729)	50,034
Due from related entities	299	-	-	-	-	-	-	-	531	830
Other assets	-	-	-	-	-	-	-	-	143	143
Total financial assets	26,315	5,765	10,590	8,315	1,836	1,136	93	1	129	54,180
Non-financial assets										999
Total assets										55,179
Financial liabilities										
Deposits at fair value	413	1,310	267	-	-	-	-	-	-	1,990
Deposits at amortised cost	13,683	4,815	8,633	375	215	206	139	-	2,410	30,476
Debt issues	4,889	1,859	1,084	2,341	754	2,478	523	1,511	-	15,439
Other liabilities	-	-	-	-	-	-	-	-	494	494
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970
Due to related entities	465	-	48	-	-	-	-	-	1,115	1,628
Total financial liabilities	19,450	8,954	10,032	2,716	969	2,684	662	1,511	4,019	50,997
Non-financial liabilities										134
Total liabilities										51,131
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	1,026	6,072	(267)	(6,405)	(870)	269	59	116	-	-

Note 37 Risk management (continued)

	The Banking Group									
	2009									
	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
Financial assets										
Cash and balances with central banks	32	-	-	-	-	-	-	-	181	213
Due from other financial institutions	3	-	-	-	-	-	-	-	-	3
Derivative financial instruments	-	-	-	-	-	-	-	-	22	22
Trading securities and other financial assets designated at fair value	1,225	1,909	1,287	-	-	-	-	-	-	4,421
Available-for-sale securities	-	-	-	-	-	-	-	-	37	37
Loans	19,731	4,346	10,523	7,455	4,292	1,199	1,097	51	(520)	48,174
Due from related entities	523	-	-	-	-	-	-	-	53	576
Other assets	-	-	-	-	-	-	-	-	142	142
Total financial assets	21,514	6,255	11,810	7,455	4,292	1,199	1,097	51	(85)	53,588
Non-financial assets										921
Total assets										54,509
Financial liabilities										
Deposits at fair value	1,445	1,831	358	12	1	-	1	-	-	3,648
Deposits at amortised cost	13,385	5,249	6,485	1,189	126	44	149	1	2,219	28,847
Trading liabilities and other financial liabilities designated at fair value	317	1,568	-	-	-	-	-	-	-	1,885
Debt issues	2,975	2,616	1,643	357	2,359	74	2,296	49	-	12,369
Other liabilities	-	-	-	-	-	-	-	-	494	494
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970
Due to related entities	607	8	109	-	-	-	-	-	1,702	2,426
Total financial liabilities	18,729	12,242	8,595	1,558	2,486	118	2,446	50	4,415	50,639
Non-financial liabilities										106
Total liabilities										50,745
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	2,646	8,836	(4,246)	(3,544)	(2,924)	(1,075)	205	102	-	-

	The Bank									
	2010									
	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**
Financial assets										
Cash and balances with central banks	**399**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**123**	**522**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Trading securities and other financial assets designated at fair value	**1,215**	**1,024**	**348**	**-**	**-**	**-**	**-**	**-**	**-**	**2,587**
Available-for-sale securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Loans	**24,267**	**4,738**	**10,221**	**8,313**	**1,832**	**1,136**	**92**	**1**	**(725)**	**49,875**
Due from related entities	**261**	**7,500**	**-**	**-**	**-**	**-**	**-**	**-**	**570**	**8,331**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142**	**142**
Total financial assets	**26,142**	**13,262**	**10,569**	**8,313**	**1,832**	**1,136**	**92**	**1**	**171**	**61,518**
Non-financial assets										**1,108**
Total assets										**62,626**
Financial liabilities										
Deposits at fair value	**413**	**1,310**	**267**	**-**	**-**	**-**	**-**	**-**	**-**	**1,990**
Deposits at amortised cost	**13,619**	**4,740**	**8,458**	**372**	**215**	**206**	**139**	**-**	**2,410**	**30,159**
Debt issues	**256**	**29**	**322**	**290**	**71**	**1,067**	**48**	**99**	**-**	**2,182**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**420**	**420**
Perpetual subordinated notes	**-**	**970**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**970**
Due to related entities	**5,400**	**9,330**	**810**	**2,051**	**683**	**1,411**	**475**	**1,412**	**1,207**	**22,779**
Total financial liabilities	**19,688**	**16,379**	**9,857**	**2,713**	**969**	**2,684**	**662**	**1,511**	**4,037**	**58,500**
Non-financial liabilities										**130**
Total liabilities										**58,630**
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	**1,026**	**6,072**	**(267)**	**(6,405)**	**(870)**	**269**	**59**	**116**	**-**	**-**

Note 37 Risk management (continued)

	The Bank									
	2009									
	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
Financial assets										
Cash and balances with central banks	32	-	-	-	-	-	-	-	180	212
Derivative financial instruments	-	-	-	-	-	-	-	-	22	22
Trading securities and other financial assets designated at fair value	1,225	1,909	1,287	-	-	-	-	-	-	4,421
Available-for-sale securities	-	-	-	-	-	-	-	-	37	37
Loans	19,605	4,342	10,497	7,453	4,291	1,197	1,096	51	(517)	48,015
Due from related entities	537	7,500	-	-	-	-	-	-	92	8,129
Other assets	-	-	-	-	-	-	-	-	139	139
Total financial assets	21,399	13,751	11,784	7,453	4,291	1,197	1,096	51	(47)	60,975
Non-financial assets										1,067
Total assets										62,042
Financial liabilities										
Deposits at fair value	1,445	1,831	358	12	1	-	1	-	-	3,648
Deposits at amortised cost	13,369	5,249	6,485	1,189	126	44	149	1	2,219	28,831
Trading liabilities and other financial liabilities designated at fair value	317	1,568	-	-	-	-	-	-	-	1,885
Debt issues	577	-	-	339	290	70	880	47	-	2,203
Other liabilities	-	-	-	-	-	-	-	-	441	441
Perpetual subordinated notes	-	970	-	-	-	-	-	-	-	970
Due to related entities	3,125	10,124	1,691	18	2,069	4	1,416	2	1,787	20,236
Total financial liabilities	18,833	19,742	8,534	1,558	2,486	118	2,446	50	4,447	58,214
Non-financial liabilities										106
Total liabilities										58,320
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	2,646	8,836	(4,246)	(3,544)	(2,924)	(1,075)	205	102	-	-

Note 38 Concentration of funding

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Funding consists of				
Deposits at fair value	**1,990**	3,648	**1,990**	3,648
Deposits at amortised cost	**30,476**	28,847	**30,159**	28,831
Trading liabilities and other financial liabilities designated at fair value	**-**	1,885	**-**	1,885
Debt issues[1]	**15,439**	12,369	**2,182**	2,203
Perpetual subordinated notes	**970**	970	**970**	970
Due to related entities	**1,628**	2,426	**22,779**	20,236
Total funding	**50,503**	50,145	**58,080**	57,773
Analysis of funding by product				
Certificates of deposits	**1,902**	3,468	**1,902**	3,468
Savings accounts	**5,570**	5,822	**5,570**	5,822
Demand deposits	**3,859**	4,111	**3,859**	4,111
Other deposits	**3,275**	2,905	**3,275**	2,905
Term deposits	**17,860**	16,189	**17,543**	16,173
Securities sold under agreements to repurchase	**-**	1,885	**-**	1,885
Debt issues	**15,439**	12,369	**2,182**	2,203
Perpetual subordinated notes	**970**	970	**970**	970
Subtotal	**48,875**	47,719	**35,301**	37,537
Due to related entities	**1,628**	2,426	**22,779**	20,236
Total funding	**50,503**	50,145	**58,080**	57,773
Analysis of funding by geographical areas[1]				
New Zealand	**36,179**	36,278	**57,013**	54,796
Australia	**1,067**	2,977	**1,067**	2,977
United Kingdom	**345**	692	**-**	-
United States of America	**6,201**	5,335	**-**	-
Other	**6,711**	4,863	**-**	-
Total funding	**50,503**	50,145	**58,080**	57,773
Analysis of funding by industry and economic sector				
Accommodation, cafes and restaurants	**97**	95	**97**	95
Agriculture, forestry and fishing	**1,236**	1,241	**1,236**	1,241
Construction	**355**	360	**355**	360
Finance and insurance	**20,832**	20,686	**7,258**	10,504
Government, administration and defence	**948**	493	**948**	493
Manufacturing	**598**	600	**598**	600
Mining	**59**	22	**59**	22
Property	**2,824**	3,027	**2,824**	3,027
Services	**2,853**	2,724	**2,853**	2,724
Trade	**792**	685	**792**	685
Transport and storage	**329**	383	**329**	383
Utilities	**294**	205	**294**	205
Retail	**16,990**	16,591	**16,990**	16,591
Other	**668**	607	**668**	607
Subtotal	**48,875**	47,719	**35,301**	37,537
Due to related entities	**1,628**	2,426	**22,779**	20,236
Total funding	**50,503**	50,145	**58,080**	57,773

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

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

Note 39 Concentration of credit exposures

	The Banking Group		The Bank	
	2010 $m	2009 $m	**2010 $m**	2009 $m
On-balance sheet credit exposures consists of				
Cash and balances with central banks	**522**	213	**522**	212
Due from financial institutions	**3**	3	**-**	-
Derivative financial instruments	**17**	22	**17**	22
Trading securities and other financial assets designated at fair value	**2,587**	4,421	**2,587**	4,421
Available-for-sale securities	**44**	37	**44**	37
Loans	**50,034**	48,174	**49,875**	48,015
Due from related entities	**830**	576	**8,331**	8,129
Other assets	**143**	142	**142**	139
Total on-balance sheet credit exposures	**54,180**	53,588	**61,518**	60,975
Analysis of on-balance sheet credit exposures by geographical areas				
New Zealand	**54,136**	53,551	**61,474**	60,938
United States of America	**44**	37	**44**	37
Total on-balance sheet credit exposures	**54,180**	53,588	**61,518**	60,975
Analysis of on-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**534**	577	**534**	577
Agriculture, forestry and fishing	**5,718**	5,368	**5,718**	5,368
Construction	**1,360**	1,380	**1,360**	1,380
Finance and insurance	**2,268**	3,179	**2,265**	3,176
Government, administration and defence	**2,308**	2,670	**2,308**	2,669
Manufacturing	**1,294**	1,402	**1,294**	1,402
Mining	**76**	59	**76**	59
Property	**8,740**	8,656	**8,730**	8,656
Property services and business services	**1,509**	1,370	**1,509**	1,370
Services	**2,322**	2,315	**2,322**	2,315
Trade	**2,358**	2,139	**2,357**	2,139
Transport and storage	**775**	686	**775**	686
Utilities	**223**	168	**223**	168
Retail lending	**24,474**	23,456	**24,322**	23,294
Other	**96**	82	**96**	82
Subtotal	**54,055**	53,507	**53,889**	53,341
Provisions for impairment charges on loans	**(729)**	(520)	**(725)**	(517)
Due from related entities	**830**	576	**8,331**	8,129
Other assets	**24**	25	**23**	22
Total on-balance sheet credit exposures	**54,180**	53,588	**61,518**	60,975
Off-balance sheet credit exposures				
Contingent liabilities and commitments	**3,398**	3,779	**3,398**	3,779
Total off-balance sheet credit exposures	**3,398**	3,779	**3,398**	3,779
Analysis of off-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	**19**	25	**19**	25
Agriculture, forestry and fishing	**64**	140	**64**	140
Construction	**126**	189	**126**	189
Finance and insurance	**119**	39	**119**	39
Government, administration and defence	**25**	83	**25**	83
Manufacturing	**104**	154	**104**	154
Mining	**3**	6	**3**	6
Property services and business services	**267**	493	**267**	493
Trade	**196**	243	**196**	243
Transport and storage	**11**	40	**11**	40
Utilities	**-**	8	**-**	8
Retail lending	**2,459**	2,359	**2,459**	2,359
Other	**5**	-	**5**	-
Total off-balance sheet credit exposures	**3,398**	3,779	**3,398**	3,779

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

Note 39 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

The following tables summarise 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; and
- 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.

The Banking Group's credit exposures to individual counterparties and groups of closely related counterparties are based on actual credit exposures rather than internal limits.

Balance date credit exposures

	The Banking Group			
	Number of Banks		Number of Non-banks	
Percentage of the Banking Group's Equity (%)	**As at 30 September 2010**	As at 30 September 2009	**As at 30 September 2010**	As at 30 September 2009
10 - 19	**2**	-	-	-
20 - 29	-	-	-	-
30 - 39	-	1	-	-
40 - 49	-	-	-	-
50 - 59	-	-	-	-
60 - 69	-	-	-	-
70 - 79	-	-	-	-
80 - 89	-	-	-	-
90 - 100	-	-	-	-

	The Banking Group			
	Total Exposure to Banks ($m)		Total Exposure to Non-banks ($m)	
Percentage of the Banking Group's Equity (%)	**As at 30 September 2010**	As at 30 September 2009	**As at 30 September 2010**	As at 30 September 2009
10 - 19	**1,027**	-	-	-
20 - 29	-	-	-	-
30 - 39	-	1,237	-	-
40 - 49	-	-	-	-
50 - 59	-	-	-	-
60 - 69	-	-	-	-
70 - 79	-	-	-	-
80 - 89	-	-	-	-
90 - 100	-	-	-	-
Total balance date credit exposures	**1,027**	1,237	-	-

All the individual counterparties included in these tables have an investment grade credit rating. An investment grade credit rating is a credit rating of BBB- or Baa3 or above, or its equivalent.

Peak end-of-day aggregate credit exposures

	The Banking Group			
	Number of Banks		Number of Non-banks	
Percentage of the Banking Group's Equity (%)	**For the Three Months Ended 30 September 2010**	For the Three Months Ended 30 September 2009	**For the Three Months Ended 30 September 2010**	For the Three Months Ended 30 September 2009
10 - 19	**1**	1	-	-
20 - 29	**1**	-	-	-
30 - 39	-	1	-	-
40 - 49	-	1	-	-
50 - 59	-	-	-	-
60 - 69	-	-	-	-
70 - 79	-	-	-	-
80 - 89	-	-	-	-
90 - 100	-	-	-	-

Comparative numbers for bank counterparties of the Banking Group have been restated as a result of continuing analysis of the Banking Group's credit exposures to individual counterparties.

Note 39 Concentration of credit exposures (continued)

The previous calculations as at 30 September 2009 and peak end-of-day aggregate for the three months ended 30 September 2009 (disclosed in the Banking Group's General Disclosure Statement for the year ended 30 September 2009) incorrectly reported credit exposures to individual bank counterparties as nil. The Banking Group has reviewed and enhanced its credit risk framework, including the process around monitoring and control of individual bank counterparties credit risk exposures.

The peak end-of-day aggregate credit exposure to each individual counterparty or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that by the Banking Group's equity as at the end of the period.

Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude 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 40 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 document 'Connected exposures policy' (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank 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. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group has 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 the bilateral netting agreements disclosed in the Bank's most recent Supplemental Disclosure Statement (refer to page 7). On this basis, there is a limit of 125% of the Banking Group's 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 30 September 2010 $m	**Peak End-of-day for the Three Months Ended 30 September 2010 $m**	As at 30 September 2009 $m	Peak End-of-day for the Three Months Ended 30 September 2009 $m
Credit exposures to connected persons:				
On gross basis, before netting	**1,046**	**1,906**	711	750
As a percentage of Tier One Capital of the Banking Group at end of the period	**30.7%**	**56.0%**	22.6%	23.8%
Netted amount	**24**	-	15	40
As a percentage of Tier One Capital of the Banking Group at end of the period	**0.7%**	**0.0%**	0.5%	1.3%
On partial bilateral net basis	**1,022**	**1,906**	696	710
As a percentage of Tier One Capital of the Banking Group at end of the period	**30.0%**	**56.0%**	22.1%	22.5%
Credit exposures to non-bank connected persons	-	-	-	-
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 30 September 2010, 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 30 September 2010.

The limits on aggregate credit exposures 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 30 September 2010.

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 30 September 2010, 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) (30 September 2009: nil).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 30 September 2010 (30 September 2009: nil).

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Independent Auditors' Report

To the shareholders of Westpac New Zealand Limited

Report on the Financial Statements (excluding Supplementary Information Relating to Capital Adequacy)

We have audited pages 24 to 99 of the General Disclosure Statement of Westpac New Zealand Limited (the '**Bank**') which consists of the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4) required by Schedules 4 and 6 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 comprise the balance sheets as at 30 September 2010, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information for both the Bank and the Banking Group. The '**Banking Group**' comprises the Bank and the entities it controlled at 30 September 2010 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited are responsible for the General Disclosure Statement, which includes financial statements prepared in accordance with Clause 22 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for including supplementary information in the General Disclosure Statement which complies with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4) disclosed in accordance with Clause 22, Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order and presented to us by the Directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

To the shareholders of Westpac New Zealand Limited

We carry out other assignments on behalf of the Bank and the Banking Group in the area of taxation advice and other assurance services. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Bank and the Banking Group. We have no other interests in the Bank, the Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 24 to 99 (excluding the supplementary information disclosed in the balance sheets and Notes 34, 35, 36, 37.1, 37.3, 37.4, 39 and 40):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Bank and the Banking Group as at 30 September 2010, and their financial performance and cash flows for the year then ended.

In our opinion, the supplementary information disclosed in the balance sheets and Notes 34, 35, 39 and 40 prescribed by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order fairly states the matters to which it relates in accordance with those Schedules.

Report on Other Legal and Regulatory Requirements (excluding Supplementary Information Relating to Capital Adequacy)

We also report in accordance with the requirements of Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 and Clauses 2(d) and 2(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4) for the year ended 30 September 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Bank and the Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy as disclosed in Notes 36, 37.1, 37.3 and 37.4 of the financial statements of the Bank and the Banking Group for the year ended 30 September 2010.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The Directors are responsible for including supplementary information relating to capital adequacy prepared in accordance with Schedule 5B of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the supplementary information relating to capital adequacy, disclosed in Notes 36, 37.1, 37.3 and 37.4, based on our review.

Independent Auditors' Report

To the shareholders of Westpac New Zealand Limited

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 of the Order

and for reporting our findings to you.

We conducted our review 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 on the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4 and, accordingly, we do not express an audit opinion on that supplementary information.

Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 36, 37.1, 37.3 and 37.4, 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.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholders, as a body. Our work has been undertaken so that we might state to the Bank's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

24 November 2010

Chartered Accountants — Auckland

Westpac

Westpac New Zealand Limited