



Westpac Banking Corporation General Disclosure Statement

for the six months ended 31 March 2010

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General information and definitions

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

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

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business. As at 31 March 2010, the NZ Banking Group included the controlled entities set out in Note 27 Related entities.
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

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

General matters

Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank Act. However, for the purposes of this General Disclosure Statement, the registered bank is the NZ Branch. The NZ Branch's head office is situated at, and the address for service is, Level 15, 188 Quay Street, Auckland, New Zealand.

Overseas Bank

The Overseas Bank was founded on 12 February 1817 and was incorporated on 23 September 1850 pursuant to the Bank of New South Wales Act 1850. In 1982 the Overseas Bank acquired The Commercial Bank of Australia Limited and the Overseas Bank changed its name to Westpac Banking Corporation. On 23 August 2002, the Overseas Bank registered as a public company limited by shares, under the Australian Corporations Act 2001 and as of that date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office is located at 275 Kent Street, Sydney, New South Wales 2000, Australia.

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

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's General Disclosure Statement for the six months ended 31 March 2010.

Registered bank: Directorate and advisers

Directors

The Directors of the Overseas Bank ('**Board**') at the time this General Disclosure Statement was signed were:

Name: Edward Alfred Evans, AC, BEcon (Hons.)

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

External Directorships: Director of Navitas Limited.

Name: Gail Patricia Kelly, Dip. ED, BA, MBA, Doctor of Bus

Non-executive: No

Country of Residence: Australia

Primary Occupation: Managing Director and Chief Executive Officer

Secondary Occupations: None

Board Audit Committee Member: No

Independent Director: No

External Directorships: Director of each of Melbourne Business School, The Financial Markets Foundation for Children and G&A Kelly Investments Pty Limited. Member of each of Financial Services Advisory Council and Australian Bankers' Association.

General matters (continued)

Name: John Simon Curtis, BA, LLB (Hons.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

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: Yes

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

Name: Peter John Oswin Hawkins, BCA (Hons.), SSFin, FAIM, ACA (NZ)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

Name: Carolyn Judith Hewson, AO, BEc (Hons.), MA (Econ.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

Name: Lindsay Philip Maxsted, Dip. Bus (Gordon), FCA
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes, Chairman
Independent Director: Yes

Name: Graham John Reaney, BComm, CPA
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

Name: Peter David Wilson, CA
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of each of Allianz Australia Limited, Landis & Gyr Holdings Pty Ltd and University of Technology Sydney Faculty of Business Executive Council. Director of each of Allianz Australia Insurance Limited, Allianz Australia Life Insurance Limited, CIC Allianz Insurance Limited, Bayard Capital Management Pty Limited, Mirapoint Pty Limited, Rowshore Pty Limited, South Sydney Central Pty Limited, Sitruc Pty Ltd, Stourhead Holdings Pty Limited, Stowe Securities Pty Limited and Cetinale Pty Limited.

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 and E. Bryan Superannuation Fund Pty Ltd.

External Directorships: Director of each of Origin Energy Limited, Origin Foundation Pty Limited, Centre for Independent Studies, World Education Australia Limited, Ceilidh Pty Ltd and Piobaireachd Pty Ltd. Member of Asia Pacific Advisory Board of CVC Capital Partners and Senior Advisor to McKinsey & Company and Caliburn Partnership.

External Directorships: Director of each of Visa Inc, Mirvac Limited, Mirvac Funds Limited, Treasury Corporation of Victoria, Minerva Fiduciary Limited, Minerva Financial Group Pty Limited, Liberty Financial Pty Ltd, Clayton Utz, The Camberwell Grammar School, Joshawk Investments Pty Ltd, Lynter Pty Ltd, Petlyn Holdings Limited and Murray Goulburn Co-operative Co. Limited.

External Directorships: Director of each of BHP Billiton Limited, BT Investment Management Limited, Stockland Corporation Limited, Stockland Trust Management Limited and The Australian Charities Fund Pty Limited. Advisory board member of Nanosonics Limited.

External Directorships: Director of each of Transurban Holdings Limited, Transurban Infrastructure Management Limited, Baker IDI Heart & Diabetes Institute Holdings Limited, Align Investments Pty Ltd, Belmont Pty Ltd, Centip Pty Ltd, Continuum Investments Pty Ltd, Jacobite Investments Pty Ltd and Kaprad Holdings Pty Ltd and Managing Director of Align Capital Pty Ltd.

External Directorships: Chairman of PMP Limited, Director of each of Australian Food Holdings Pty Limited, Elanora Country Club, Holbris Pty Limited, Holcim (Australia) Holdings Pty Limited, Holcim Finance (Australia) Pty Limited, Holcim Participations (Australia) Pty Limited, Holglad Pty Limited, Maxwell Food Products Pty Limited, Polo Citrus Australia Pty Limited, Renilton Investments Pty Limited, Renilton Pty Limited and Vennor Investments Pty Limited. Member of BankSA Advisory Board.

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

General matters (continued)

There has been no change to the composition of the Board since publication of the NZ Branch's General Short Form Disclosure Statement for the three months ended 31 December 2009.

Chief Executive Officer, NZ Branch

Name: David McLean, LLB (Hons.)

Country of Residence: New Zealand

Primary Occupation: Chief Executive Officer, NZ Branch

Secondary Occupations: None

External Directorships: None

Responsible person

George Frazis, Chief Executive, Westpac New Zealand, has been authorised in writing by each Director named on pages 1 and 2, in accordance with section 82 of the Reserve Bank Act, to sign this General Disclosure Statement on the Directors' behalf. Accordingly George Frazis is a Responsible Person under the Order. The following disclosures are made in relation to George Frazis in his capacity as a Responsible Person:

Name: George Frazis, B Eng (Elec)(Hons.), MBA

Country of Residence: New Zealand

Primary Occupation: Chief Executive, Westpac New Zealand Limited

Secondary Occupations: None

Address for communications

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

Conflicts of interest policy

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

- (i) give notice to the Board of any direct or indirect interest in any contract, proposed contract or other matter with the Overseas Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract or other matter between the Overseas Bank and a person or persons specified in that notice; and
- (ii) in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

Interested transactions

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

- a. on terms other than on those that would in the ordinary course of business of the NZ Branch or any member of the NZ Banking Group, be given to any other person of like circumstances and means; or
- b. which could be reasonably likely to influence materially the exercise of the Directors', or the Chief Executive Officer, NZ Branch's duties.

Auditors

Overseas Banking Group

PricewaterhouseCoopers
201 Sussex Street
Sydney, NSW 1171
Australia

NZ Banking Group

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars.

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

On 31 March 2010, the Overseas Bank credit rating issued by Fitch Ratings changed from AA- to AA with a 'stable' outlook. In the two years prior to 31 March 2010, the rating issued by Fitch Ratings was AA-. The rating outlook at 31 March 2008 was 'stable' and was moved to 'positive' on 12 May 2008. The rating was changed to 'stable' from 'positive' on 3 December 2008 and that position was unchanged until 31 March 2010 when the rating was upgraded with a 'stable' outlook.

In the two years prior to 31 March 2010, the Overseas Bank credit rating issued by Moody's Investors Service has not changed. However, on 2 March 2009, Moody's Investors Service revised the outlook for the Overseas Bank rating to 'negative' from 'stable'. In changing the outlook to 'negative', Moody's Investors Service cited the potential for the deepening global economic downturn to have a protracted impact on all the major Australian banks.

In the two years prior to 31 March 2010, the Overseas Bank credit rating issued by Standard & Poor's has not changed. The outlook for the rating has also remained unchanged at 'stable'.

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

Descriptions of credit rating scales¹

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

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

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

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

Financial statements of the Overseas Bank and the Overseas Banking Group

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2009 and for the six months ended 31 March 2010 respectively and can be accessed at the internet address www.westpac.com.au. Copies of the NZ Branch's most recent General Disclosure Statement and Supplemental Disclosure Statement, which contains a copy of the most recent publicly available financial statements of the Overseas Bank and the Overseas Banking Group, will be provided immediately, free of charge, to any person requesting a copy where the request is made at the NZ Branch's head office, Level 15, 188 Quay Street, Auckland. They are also available, free of charge, at the internet address www.westpac.co.nz and within five working days of any request, at any branch of the NZ Branch and at any staffed premises of any agency of the NZ Branch, primarily engaged in the business of the NZ Branch to which its customers or potential customers have access in order to conduct banking business.

Historical summary of financial statements

	NZ Banking Group						
	Six Months Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	31 March 2010 NZ IFRS Unaudited \$m	30 September 2009 NZ IFRS ^{1,2} Audited \$m	30 September 2008 NZ IFRS ³ Audited \$m	30 September 2007 NZ IFRS Audited \$m	30 September 2006 NZ IFRS Audited \$m	30 September 2005 NZ IFRS ⁴ Audited \$m	30 September 2005 NZ IFRS ⁵ Audited \$m
Income statement							
Interest income	1,995	4,622	5,387	4,603	3,793	3,081	2,986
Interest expense	(1,301)	(3,142)	(4,049)	(3,359)	(2,625)	(2,019)	(1,892)
Net interest income	694	1,480	1,338	1,244	1,168	1,062	1,094
Non-interest income	279	610	620	528	524	545	593
Net operating income	973	2,090	1,958	1,772	1,692	1,607	1,687
Operating expenses	(375)	(808)	(814)	(736)	(699)	(680)	(726)
Impairment charges on loans	(220)	(690)	(181)	(91)	(31)	(44)	(44)
Profit before income tax expense	378	592	963	945	962	883	917
Income tax expense	77	(1,086)	(281)	(295)	(319)	(216)	(292)
Profit/(loss) after income tax expense	455	(494)	682	650	643	667	625
Profit/(loss) after income tax expense attributable to:							
Head office account and owners of the NZ Banking Group	454	(497)	679	646	639	662	611
Non-controlling interests in subsidiary companies	1	3	3	4	4	5	14
Profit/(loss) after income tax expense	455	(494)	682	650	643	667	625
NZ Branch profit repatriation to the Overseas Bank	-	-	(602)	(137)	(322)	(333)	(333)
Dividends paid on ordinary share capital	(3)	(13)	(175)	(31)	(160)	-	-
Dividends paid on preference share capital	-	(104)	(15)	-	-	-	-
Dividends paid on convertible debentures (net of tax)	(34)	(69)	(66)	(69)	(67)	(107)	(107)
Dividends paid on NZ Class shares	-	-	-	-	-	(54)	(54)
Balance sheet							
Total assets	72,159	73,444	70,882	64,602	52,136	45,336	45,050
Total impaired assets (including restructured assets)	759	676	278	118	66	80	80
Total liabilities	67,772	69,539	66,750	60,729	48,719	41,370	41,072
Total head office account	1,617	1,392	174	1,361	1,307	1,090	1,100
Total equity	4,387	3,905	4,132	3,873	3,417	3,966	3,978

1 During the year ended 30 September 2009 the Overseas Bank advanced capital of \$1.8 billion to the NZ Branch.

2 Income tax expense includes a provision totalling \$918 million in relation to nine structured finance transactions which occurred between 1998 and 2002 that were disputed by the New Zealand Commissioner of Inland Revenue. Refer to Note 30 for further information.

3 During the year ended 30 September 2008, the NZ Branch repatriated \$1.3 billion to the Overseas Bank from Branch capital (\$698 million) and retained profits (\$602 million).

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

5 These numbers have been prepared under New Zealand Financial Reporting Standards ('NZ FRS'). The primary adjustments to NZ FRS on the adoption of NZ IFRS are referred to in footnote 4 above.

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

Guarantee arrangements

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

Guarantee of deposits by the Australian Government: Financial Claims Scheme

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

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

Guarantee arrangements (continued)

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

The first A\$1 million of 'protected accounts' held with an eligible ADI (including most deposits) are guaranteed without charge under the FCS. The A\$1 million threshold applies to the total amount of funds held by a depositor in (separate) deposit accounts with an eligible ADI. Eligible institutions were able to obtain coverage for deposit amounts over A\$1 million under the Guarantee Facility (described more fully below) in return for a fee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Guarantee arrangements (continued)

Information about the Guarantor

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

The credit ratings assigned to the Guarantor's long-term obligations payable in Australian dollars (the currency of its jurisdiction) are AAA by Standard & Poor's, Aaa by Moody's Investors Service and AAA by Fitch Ratings. The outlook for each of these ratings is 'stable'. There have been no changes in these credit ratings (including outlook) in the two years prior to 31 March 2010.

Ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, qualified, withdrawn or suspended at any time. For an explanation of the credit rating scales see the table under the sub-heading "Description of credit rating scales" on page 4 of this General Disclosure Statement.

New Zealand deposit guarantee scheme and wholesale funding guarantee facility

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

- (i) a Crown Deed of Guarantee dated 11 November 2008, amended by supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**');
- (ii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**'); and
- (iii) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together '**Wholesale Guarantee**'). The Wholesale Guarantee closed on 30 April 2010. From that time, the Reserve Bank of New Zealand ('**Reserve Bank**') will not extend the guarantee to new obligations of Westpac New Zealand. Existing guaranteed liabilities will not be affected.

Details of the Deposit Guarantee, Revised Deposit Guarantee and the Wholesale Guarantee are available in Westpac New Zealand's General Disclosure Statement for the six months ended 31 March 2010 and from the Treasury internet site www.treasury.govt.nz.

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

Ranking of local creditors in liquidation

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

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

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

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

Section 13A of the Australian Banking Act affects all of the unsecured deposit liabilities of the NZ Branch which as at 31 March 2010 amounted to \$4,994 million (31 March 2009: \$4,345 million, 30 September 2009: \$4,401 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the six months ended 31 March 2010, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

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

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

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 NZ Banking Group or the NZ Branch.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 31 March 2010 Interim Financial Report and the 30 September 2009 Annual Financial Report.

Other material matters

There are no matters relating to the business or affairs of the NZ Branch and the NZ 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 NZ Branch or any member of the NZ Banking Group is the issuer.

Conditions of registration

The conditions of registration imposed on the NZ Branch, which have applied from 26 November 2007, are as follows:

1. That the NZ Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
2. That the NZ Banking Group's insurance business is not greater than 1 percent of its total consolidated assets. For the purposes of this condition:
 - (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - (ii) In measuring the size of the NZ Banking Group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity;
 - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
 - (b) otherwise, the size of each insurance business conducted by any entity within the NZ Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the NZ Banking Group. All amounts in parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
3. That the business of the NZ Branch does not constitute a predominant proportion of the business of Westpac Banking Corporation.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the NZ Branch shall be made unless:
 - (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) the Reserve Bank has advised that it has no objection to that appointment.
5. That Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
 - Tier One Capital of Westpac Banking Corporation is not less than 4 percent of risk-weighted exposures;
 - Total Capital of Westpac Banking Corporation is not less than 8 percent of risk-weighted exposures.
7. That liabilities of the NZ Branch in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the NZ Branch), do not exceed NZ\$15 billion.
8. That the retail deposits of the NZ Branch in New Zealand do not exceed \$200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds \$250,000.

Further information on the capital adequacy of the Overseas Bank is contained in Note 37 Capital adequacy.

Proposed transfer of additional banking operations to Westpac New Zealand

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

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

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

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

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

Proposed transfer of additional banking operations to Westpac New Zealand (continued)

As at 31 March 2010, business activities proposed to be transferred by the NZ Branch include: customer loans of approximately \$7.0 billion, customer deposits of approximately \$4.4 billion, and term intra-group funding of approximately \$3.0 billion. In addition, for the six months ended 31 March 2010, it is estimated that the business activities to be transferred by the NZ Branch had aggregate revenues of approximately \$90 million and aggregate net profit after tax of approximately \$50 million.

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

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

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

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, as at the date on which this General 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 Overseas Bank believes and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the six months ended 31 March 2010:

- a. the NZ Branch has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- b. the NZ Branch had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks and that those systems were being properly applied.

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



George Frazis



David McLean

Dated this the 11 June 2010

Financial statements

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Income statements for the six months ended 31 March 2010

	Note	NZ Banking Group			NZ Branch		
		Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Interest income	2	1,995	2,560	4,622	367	729	1,094
Interest expense	2	(1,301)	(1,789)	(3,142)	(218)	(585)	(814)
Net interest income		694	771	1,480	149	144	280
Non-interest income:							
Fees and commissions	3	157	182	360	24	20	43
Wealth management revenue	3	42	37	80	-	-	-
Trading income	3	64	134	136	64	134	136
Gain/(loss) on ineffective hedges	3	6	(4)	3	-	-	-
Other non-interest income	3	10	20	31	15	14	16
Total non-interest income		279	369	610	103	168	195
Net operating income		973	1,140	2,090	252	312	475
Operating expenses	4	(375)	(383)	(808)	(29)	(35)	(87)
Impairment charges on loans	6	(220)	(338)	(690)	(12)	(22)	(70)
Operating profit		378	419	592	211	255	318
Share of profit of associate accounted for using equity method		-	-	-	-	-	-
Profit before income tax expense		378	419	592	211	255	318
Income tax expense on operating profit		(111)	(123)	(168)	(64)	(73)	(94)
Income tax related to New Zealand structured finance transactions		188	(55)	(918)	112	(55)	(737)
Profit/(loss) after income tax expense		455	241	(494)	259	127	(513)
Profit/(loss) after income tax expense attributable to:							
Head office account and owners of the NZ Banking Group		454	239	(497)	259	127	(513)
Non-controlling interests		1	2	3	-	-	-
		455	241	(494)	259	127	(513)

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 six months ended 31 March 2010

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Profit/(loss) after income tax expense	455	241	(494)	259	127	(513)
Other comprehensive income:						
Net unrealised gains from changes in fair value of available-for-sale securities	19	3	2	-	-	-
Cash flow hedges:						
Net gains/(losses) from changes in fair value of cash flow hedges	57	(233)	(107)	-	-	-
Transferred to the income statement	3	(2)	(3)	-	-	-
Actuarial gains on employee defined benefit superannuation schemes	7	-	30	-	-	-
Income tax relating to components of other comprehensive income ¹	(22)	70	22	-	-	-
Other comprehensive income/(expense) for the period/year, net of tax	64	(162)	(56)	-	-	-
Total comprehensive income/(expense) for the period/year	519	79	(550)	259	127	(513)
Total comprehensive income/(expense) attributable to:						
Head office account and owners of the NZ Banking Group	518	77	(553)	259	127	(513)
Non-controlling interests	1	2	3	-	-	-
Total comprehensive income/(expense) for the period/year	519	79	(550)	259	127	(513)

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

Tax effects relating to each component of other comprehensive income

	NZ Banking Group			NZ Branch		
	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 six months ended 31 March 2010 (unaudited)						
Net unrealised gains from changes in fair value of available-for-sale securities	19	-	19	-	-	-
Cash flow hedges:						
Net gains from changes in fair value of cash flow hedges	57	(18)	39	-	-	-
Transferred to the income statement	3	(2)	1	-	-	-
Actuarial gains on employee defined benefit superannuation schemes	7	(2)	5	-	-	-
Other comprehensive income	86	(22)	64	-	-	-
For the six months ended 31 March 2009 (unaudited)						
Net unrealised gains from changes in fair value of available-for-sale securities	3	-	3	-	-	-
Cash flow hedges:						
Net losses from changes in fair value of cash flow hedges	(233)	70	(163)	-	-	-
Transferred to the income statement	(2)	-	(2)	-	-	-
Other comprehensive expense	(232)	70	(162)	-	-	-
For the year ended 30 September 2009 (audited)						
Net unrealised gains from changes in fair value of available-for-sale securities	2	-	2	-	-	-
Cash flow hedges:						
Net losses from changes in fair value of cash flow hedges	(107)	32	(75)	-	-	-
Transferred to the income statement	(3)	1	(2)	-	-	-
Actuarial gains on employee defined benefit superannuation schemes	30	(11)	19	-	-	-
Other comprehensive expense	(78)	22	(56)	-	-	-

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

Statements of changes in equity for the six months ended 31 March 2010

	Head Office Account			NZ Banking Group Equity				Total before Non-controlling Interests	Non-controlling Interests	Total Equity
	Branch Capital	(Accumulated Losses)/ Retained Profits	Convertible Debentures	Share Capital	Retained Profits	Cash Flow Hedge Reserve	Available-for-sale Securities Reserve			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
As at 1 October 2008	-	174	1,284	1,433	1,305	(88)	16	4,124	8	4,132
Six months ended 31 March 2009										
Profit after income tax expense	-	127	-	-	112	-	-	239	2	241
Other comprehensive income	-	-	-	-	-	(165)	3	(162)	-	(162)
Total comprehensive income/(expense) for the six months ended 31 March 2009	-	127	-	-	112	(165)	3	77	2	79
Transaction with owners:										
Ordinary share capital issued	-	-	-	9	-	-	-	9	-	9
Allocation of Branch Capital from the Overseas Bank ¹	1,300	-	-	-	-	-	-	1,300	-	1,300
Preference share capital redeemed ¹	-	-	-	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on convertible debentures (net of tax)	-	(34)	-	-	-	-	-	(34)	-	(34)
Dividends paid on ordinary shares	-	-	-	-	(9)	-	-	(9)	(4)	(13)
Dividends paid on preference shares	-	-	-	-	(104)	-	-	(104)	-	(104)
Aggregation of new entities ²	-	-	-	301	-	-	-	301	-	301
Share capital buy-back ³	-	-	-	(301)	-	-	-	(301)	-	(301)
As at 31 March 2009 (unaudited)	1,300	267	1,284	142	1,304	(253)	19	4,063	6	4,069
Year ended 30 September 2009										
(Loss)/profit after income tax expense	-	(513)	-	-	16	-	-	(497)	3	(494)
Other comprehensive income	-	-	-	-	19	(77)	2	(56)	-	(56)
Total comprehensive (expense)/income for the year ended 30 September 2009	-	(513)	-	-	35	(77)	2	(553)	3	(550)
Transaction with owners:										
Ordinary share capital issued	-	-	-	9	-	-	-	9	-	9
Allocation of Branch Capital from the Overseas Bank ¹	1,800	-	-	-	-	-	-	1,800	-	1,800
Preference share capital redeemed ¹	-	-	-	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on convertible debentures (net of tax)	-	(69)	-	-	-	-	-	(69)	-	(69)
Dividends paid on ordinary shares	-	-	-	-	(9)	-	-	(9)	(4)	(13)
Dividends paid on preference shares	-	-	-	-	(104)	-	-	(104)	-	(104)
Aggregation of new entities ²	-	-	-	301	-	-	-	301	-	301
Share capital buy-back ³	-	-	-	(301)	-	-	-	(301)	-	(301)
As at 30 September 2009 (audited)	1,800	(408)	1,284	142	1,227	(165)	18	3,898	7	3,905
Six months ended 31 March 2010										
Profit after income tax expense	-	259	-	-	195	-	-	454	1	455
Other comprehensive income	-	-	-	-	5	40	19	64	-	64
Total comprehensive income for the six months ended 31 March 2010	-	259	-	-	200	40	19	518	1	519
Transaction with owners:										
Dividends paid on convertible debentures (net of tax)	-	(34)	-	-	-	-	-	(34)	-	(34)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(3)	(3)
As at 31 March 2010 (unaudited)	1,800	(183)	1,284	142	1,427	(125)	37	4,382	5	4,387

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

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

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

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 (continued) for the six months ended 31 March 2010

NZ Branch

	Head Office Account			Total Equity \$m
	Branch Capital \$m	Accumulated Losses/ Retained Profits \$m	Convertible Debentures \$m	
As at 1 October 2008	-	174	1,284	1,458
Six months ended 31 March 2009				
Profit after income tax expense	-	127	-	127
Total comprehensive income for the six months ended 31 March 2009	-	127	-	127
Transaction with owners:				
Dividends paid on convertible debentures (net of tax)	-	(34)	-	(34)
Allocation of Branch Capital from the Overseas Bank ¹	1,300	-	-	1,300
As at 31 March 2009 (unaudited)	1,300	267	1,284	2,851
Year ended 30 September 2009				
Loss after income tax expense	-	(513)	-	(513)
Total comprehensive expense for the year ended 30 September 2009	-	(513)	-	(513)
Transaction with owners:				
Dividends paid on convertible debentures (net of tax)	-	(69)	-	(69)
Allocation of Branch Capital from the Overseas Bank ¹	1,800	-	-	1,800
As at 30 September 2009 (audited)	1,800	(408)	1,284	2,676
Six months ended 31 March 2010				
Profit after income tax expense	-	259	-	259
Total comprehensive income for the six months ended 31 March 2010	-	259	-	259
Transaction with owners:				
Dividends paid on convertible debentures (net of tax)	-	(34)	-	(34)
As at 31 March 2010 (unaudited)	1,800	(183)	1,284	2,901

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

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

Balance sheets as at 31 March 2010

	Note	NZ Banking Group			NZ Branch		
		31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Assets							
Cash and balances with central banks		1,067	1,258	798	825	936	584
Due from other financial institutions	9	21	3	843	18	-	841
Derivative financial instruments	28	4,591	8,968	6,328	4,573	8,944	6,306
Trading securities and other financial assets designated at fair value	10	6,798	7,491	5,405	2,188	2,839	984
Available-for-sale securities	11	56	38	37	-	-	-
Loans	12, 13	56,215	55,730	55,592	6,897	8,265	7,583
Life insurance assets		132	95	113	-	-	-
Due from related entities		1,885	2,274	2,759	6,214	7,717	7,295
Investment in associate	27	48	48	48	-	-	-
Goodwill and other intangible assets	14	621	620	623	-	-	-
Property, plant and equipment	15	104	91	94	-	-	-
Deferred tax assets	16	414	311	306	113	-	40
Other assets	17	207	923	498	46	746	357
Total assets		72,159	77,850	73,444	20,874	29,447	23,990
Liabilities							
Due to other financial institutions	18	597	239	485	597	239	485
Deposits at fair value	19	2,426	4,069	3,468	-	-	-
Deposits at amortised cost	19	34,508	32,726	32,944	4,397	4,106	3,916
Derivative financial instruments	28	4,938	10,704	6,970	4,938	10,704	6,970
Trading liabilities and other financial liabilities designated at fair value	20	330	2,751	2,698	330	455	813
Debt issues	21	16,810	11,492	12,369	-	-	-
Current tax liabilities		9	78	373	30	5	234
Deferred tax liabilities	16	-	-	-	-	5	-
Provisions	22	110	80	106	36	13	28
Other liabilities	23	540	1,167	663	52	647	122
Total liabilities excluding subordinated debentures and due to related entities		60,268	63,306	60,076	10,380	16,174	12,568
Subordinated debentures	24	796	1,032	790	796	1,032	790
Total liabilities excluding due to related entities		61,064	64,338	60,866	11,176	17,206	13,358
Due to related entities		6,708	9,443	8,673	6,797	9,390	7,956
Total liabilities		67,772	73,781	69,539	17,973	26,596	21,314
Net assets		4,387	4,069	3,905	2,901	2,851	2,676
Equity							
Head office account							
Branch capital		1,800	1,300	1,800	1,800	1,300	1,800
(Accumulated losses)/retained profits		(183)	267	(408)	(183)	267	(408)
Total head office account		1,617	1,567	1,392	1,617	1,567	1,392
Convertible debentures	26	1,284	1,284	1,284	1,284	1,284	1,284
NZ Banking Group equity							
Ordinary share capital		142	142	142	-	-	-
Retained profits		1,427	1,304	1,227	-	-	-
Cash flow hedge reserve		(125)	(253)	(165)	-	-	-
Available-for-sale securities reserve		37	19	18	-	-	-
Total equity attributable to owners of the NZ Banking Group		1,481	1,212	1,222	-	-	-
Non-controlling interests		5	6	7	-	-	-
Total equity		4,387	4,069	3,905	2,901	2,851	2,676
Interest earning and discount bearing assets		64,649	65,443	62,539	13,225	16,571	12,663
Interest and discount bearing liabilities		57,734	56,993	55,384	11,128	12,489	10,319

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 six months ended 31 March 2010

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Cash flows from operating activities						
Interest income received	1,994	2,619	4,701	363	755	1,129
Interest expense paid	(1,320)	(1,974)	(3,314)	(216)	(592)	(821)
Non-interest income received	277	377	617	103	168	195
Net (increase)/decrease in trading securities and other financial assets designated at fair value	(1,132)	(3,897)	(2,019)	(943)	(1,217)	430
Net (decrease)/increase in trading liabilities and other financial liabilities designated at fair value	(2,440)	1,633	1,552	(555)	(663)	(333)
Net (decrease)/increase in derivative financial instruments	(238)	2,024	1,067	(299)	2,283	1,187
Operating expenses paid	(321)	(354)	(721)	(22)	(34)	(70)
Income tax paid	(401)	(117)	(246)	(342)	(41)	(56)
Net cash (used in)/provided by operating activities	(3,581)	311	1,637	(1,911)	659	1,661
Cash flows from investing activities						
Net decrease in due from other financial institutions – term	-	1,025	1,028	-	364	364
Net loans (advanced to)/repaid by customers	(843)	(499)	(713)	674	607	1,241
Net increase in life insurance assets	(19)	(6)	(24)	-	-	-
Net decrease/(increase) in due from related entities	876	(92)	(589)	1,081	70	492
Net decrease/(increase) in other assets	32	(154)	(69)	54	(157)	(107)
Purchase of capitalised computer software	(18)	(15)	(44)	-	-	-
Purchase of property, plant and equipment	(20)	(23)	(39)	-	-	-
Proceeds from disposal of property, plant and equipment	1	-	5	-	-	-
Net cash provided by/(used in) investing activities	9	236	(445)	1,809	884	1,990
Cash flows from financing activities						
Redemption of preference share capital	-	-	(1,300)	-	-	-
Net increase/(decrease) in deposits	522	444	61	481	(18)	(208)
Net proceeds from debt issues	4,441	390	1,267	-	-	-
Net decrease in due to related entities	(1,966)	(1,864)	(2,637)	(1,031)	(2,348)	(5,034)
Net (decrease)/increase in other liabilities and subordinated debentures	(38)	476	(203)	7	498	(241)
Payment of dividends on convertible debentures	(49)	(49)	(99)	(49)	(49)	(99)
Payment of dividends on ordinary shares	(3)	(4)	(4)	-	-	-
Payment of dividends on preference shares	-	(104)	(104)	-	-	-
Branch capital received from the Overseas Bank	-	-	1,800	-	-	1,800
Net cash provided by/(used in) financing activities	2,907	(711)	(1,219)	(592)	(1,917)	(3,782)
Net decrease in cash and cash equivalents	(665)	(164)	(27)	(694)	(374)	(131)
Cash and cash equivalents at beginning of the period/year	1,156	1,183	1,183	940	1,071	1,071
Cash and cash equivalents at end of the period/year	491	1,019	1,156	246	697	940
Cash and cash equivalents comprise:						
Cash and balances with central banks	1,067	1,258	798	825	936	584
Due (to)/from other financial institutions – at call (net)	(576)	(239)	358	(579)	(239)	356
Cash and cash equivalents at end of the period/year	491	1,019	1,156	246	697	940
Reconciliation of profit/(loss) after income tax expense to net cash flows from operating activities						
Profit/(loss) after income tax expense	455	241	(494)	259	127	(513)
<i>Adjustments:</i>						
Software amortisation costs	20	22	45	-	-	-
Impairment charges on intangible assets	-	-	3	-	-	-
Impairment charges on loans	220	338	690	12	22	70
Depreciation	9	10	21	-	-	-
Gain on disposal of property, plant and equipment	-	-	(3)	-	-	-
Share-based payments	1	1	3	-	-	-
Movement in accrued assets	(4)	66	614	(4)	26	573
Movement in accrued liabilities and provisions	2	(171)	(164)	9	(5)	10
Movement in current and deferred tax	(489)	29	292	(405)	71	207
Tax on convertible debentures dividends	15	15	30	15	15	30
Movement in trading securities and other financial assets designated at fair value	(1,132)	(3,897)	(2,019)	(943)	(1,217)	430
Movement in trading liabilities and other financial liabilities designated at fair value	(2,440)	1,633	1,552	(555)	(663)	(333)
Movement in derivative financial instruments	(238)	2,024	1,067	(299)	2,283	1,187
Net cash flows from operating activities	(3,581)	311	1,637	(1,911)	659	1,661

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.

These financial statements have also been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('**IFRS**').

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

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

These financial statements were authorised for issue by the Board on 11 June 2010. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2009.

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

Basis of aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Branch, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, St.George New Zealand Limited, St.George Financial Investments New Zealand Limited, Westpac NZ Funding Limited and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited, Westpac Financial Services Group - NZ - Limited, Westpac Group Investment - NZ - Limited, Westpac New Zealand Group Limited and their controlled entities. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

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

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

Foreign currency

Items included in the financial statements of each of the NZ 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 NZ Banking Group and the NZ Branch are presented in New Zealand dollars, which is the NZ Banking Group and the NZ Branch'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 NZ Banking Group have been included in the income statement, except when they are deferred in equity as qualifying cash flow hedges.

Note 1 Statement of accounting policies (continued)

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments measured at amortised cost or 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 loan's original effective interest rate. This rate is also used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an 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. Asset management fees relating to investment funds are recognised over the period the service is provided.

Net trading income

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of trading assets and liabilities are recognised as trading income or expense within non-interest income in the income statement in the period in which they arise except for recognition of day-one profits and losses which are deferred where certain inputs are unobservable. Dividend income from the trading portfolio is also recorded as part of non-interest income. Interest income and expense on the trading portfolio is recognised as part of net interest income.

Gain or loss on sale of property, plant and equipment

The 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 as non-interest income.

Expense recognition

Interest expense

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

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

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

Note 1 Statement of accounting policies (continued)

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 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 balance date that are expected to apply when the liability is settled or the asset is realised.

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

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

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 NZ 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.

Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. 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 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 assets. The excess of the cost of acquisition, 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 NZ Banking Group's share of the identifiable net assets acquired is recorded as goodwill.

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

Assets

Financial assets

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

■ **Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading and those designated 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.

■ **Loans**

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

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

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

Note 1 Statement of accounting policies (continued)

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

Cash and balances with central banks

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

Due from other financial institutions

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

Derivative financial instruments

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

Impairment of financial assets

Impaired financial assets include:

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the NZ Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the NZ Banking Group would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (a) adverse changes in the payment status of borrowers in the group; or
 - (b) national or local economic conditions that correlate with defaults on the assets in the group.

Note 1 Statement of accounting policies (continued)

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

If there is objective evidence that an impairment 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 NZ Banking Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being 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 NZ Banking Group and historical loss experience for assets with credit risk characteristics similar to those in the NZ Banking Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and 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 NZ Banking Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for loan impairment in the income statement. If, in a subsequent 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 NZ Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity 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.

Life insurance assets

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

Due from related entities

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

Investments in related entities including associates

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

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

Goodwill and other intangible assets

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

Note 1 Statement of accounting policies (continued)

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 ('CGUs') 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 2009. 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 NZ Banking Group. These costs are amortised using the straight-line method to allocate the cost of the asset less any residual value over the estimated useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment losses are recognised as 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, securities sold but not yet delivered, trade debtors and prepayments.

Impairment of non-financial assets

The carrying amount of the NZ 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 periods. Impairment losses and reversals of impairment losses are recognised in the income statement.

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

Liabilities

The NZ Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (either designated as such upon initial recognition or those classified as held for trading) 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.

Due to other financial institutions

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

Note 1 Statement of accounting policies (continued)

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

Derivative financial instruments, including forwards, futures, swaps and options, are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. 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 represent bonds, notes and commercial paper that have been issued by the NZ 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.

Life insurance policy liabilities

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

Other liabilities

Other liabilities include accrued interest payable, securities purchased but not yet delivered, claims reserve on insurance policies, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from the defined benefit superannuation scheme.

Subordinated debentures

Subordinated debentures issued by the NZ Banking Group are initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method to amortise cost at inception to the redemption value over the expected life of the debt.

Due to related entities

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

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 at the reporting 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.

Note 1 Statement of accounting policies (continued)

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 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 reporting date are measured at the estimated cash outflows, discounted using market yields 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. Costs relating to ongoing activities are not provided for.

Head office account and equity

Ordinary shares

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

Head office account – Branch capital

Branch capital comprises funds provided by the Overseas Bank. It is non-interest bearing and there is no fixed date for repatriation.

Convertible debentures

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

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are 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 or losses associated with the effective portion of designated cash flow hedging instruments.

Hedging

The NZ Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss 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 NZ Banking Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the NZ Banking Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The NZ Banking Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

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

Fair value hedge

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

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

Note 1 Statement of accounting policies (continued)

Cash flow hedge

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

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

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

Embedded derivatives

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

Loan securitisation

The NZ Banking Group, through its loan securitisation programme, may package and sell loans (principally housing mortgage loans) as securities to investors. In such transactions the NZ Banking Group provides an equitable interest in the loans to investors who provide funding to finance them. Securitised loans 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.

Funds management activities

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

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

Leases

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

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

Offsetting

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

Segment reporting

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 NZ Banking Group has determined that the NZ Banking Group 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.

In accordance with NZ IFRS 8 *Operating Segments*, the NZ Banking Group has the following business segments:

- Business Banking;
- Consumer Banking; and
- Institutional Banking.

Statement of cash flows

Basis of presentation

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

Cash and cash equivalents

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the NZ Banking Group, which are readily convertible at the investor's or customer's option and include the 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 NZ Banking Group.

Note 1 Statement of accounting policies (continued)

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* – 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 the recognition of dividends together with other evidence as indicators of impairment.

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 NZ Banking Group:

- NZ IFRS 9 *Financial Instruments: Classification and Measurement* – 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:
 - NZ IFRS 9 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 bifurcation 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 a 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.
- NZ IFRS 2 *Share-based Payment – Amendment: Group Cash-settled Share-based Payment Transactions* was issued in August 2009 and is applicable to the NZ 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 NZ Banking Group.
- NZ IAS 1 *Presentation of Financial Statements* – The amendments to the standard were issued in April 2009 and are applicable to the NZ 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.
- NZ IAS 7 *Statement of Cash Flows* – Amendments to the standard were issued in April 2009 and are applicable to the NZ 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.
- NZ IAS 17 *Leases* – The amendment to the standard was issued in April 2009 and is applicable to the NZ Banking Group in the 2011 financial year. The amendment removed specific guidance on classifying land as a lease.
- NZ IAS 24 *Related Party Disclosures* – The revised standard was approved in November 2009 and is applicable to the NZ 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.
- NZ IAS 32 *Financial Instruments: Presentation* – Amendments to the standard were issued in October 2009 and are applicable to the NZ Banking Group in the 2011 financial year. The amendments clarify the classification of rights issues.

Note 1 Statement of accounting policies (continued)

1.5 Critical accounting estimates, judgement and assumptions

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

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

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 model. 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 29.

A negligible proportion of the NZ 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 NZ 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 future cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's effective interest rate. Provisions for loan impairment losses represent management's estimate of the losses incurred in the loan portfolios as at the 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 charges 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 22.

There are two components to the NZ 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 NZ 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 NZ Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgements can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.
- (b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred, but have not been separately identified as at 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.

Note 1 Statement of accounting policies (continued)

Goodwill

Goodwill represents the excess of purchase consideration, over the fair value of the NZ Banking Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually.

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgement. Different fair values would result in changes to 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 NZ 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 obligations is disclosed in Note 32.

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 22. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

Critical accounting judgements

The judgements, apart from those involving estimations, which management have made in applying the NZ 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 NZ Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement 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 NZ Banking Group estimates its tax liabilities based on the NZ 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 NZ 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 NZ 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 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 NZ Banking Group controls an SPV, management makes judgements about the NZ Banking Group's exposure to the associated risks and rewards, as well as its ability to make operational decisions for the SPV.

Notes to the financial statements

Note 2 Net interest income

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Interest income						
Loans	1,846	2,370	4,313	184	317	508
Deposits with other financial institutions	12	40	57	10	33	44
Impaired assets	18	15	29	-	-	-
Related entities	-	-	-	117	322	466
Trading securities and other financial assets designated at fair value	119	135	223	56	57	76
Total interest income¹	1,995	2,560	4,622	367	729	1,094
Interest expense						
Current and term deposits	601	976	1,611	65	108	174
Deposits from other financial institutions	6	14	31	6	14	31
Debt issues	175	209	344	-	-	-
Related entities	455	403	847	119	327	458
Subordinated debentures	19	25	47	19	25	47
Trading liabilities and other financial liabilities designated at fair value	28	141	214	3	91	78
Other	17	21	48	6	20	26
Total interest expense²	1,301	1,789	3,142	218	585	814
Net interest income	694	771	1,480	149	144	280

1 Total interest income for financial assets that are not at fair value through profit or loss is \$1,876 million (31 March 2009: \$2,425 million, 30 September 2009: \$4,399 million) for the NZ Banking Group and \$311 million (31 March 2009: \$672 million, 30 September 2009: \$1,018 million) for the NZ Branch.

2 Total interest expense for financial liabilities that are not at fair value through profit or loss is \$1,143 million (31 March 2009: \$1,322 million, 30 September 2009: \$2,540 million) for the NZ Banking Group and \$215 million (31 March 2009: \$494 million, 30 September 2009: \$736 million) for the NZ Branch.

For the six months ended 31 March 2010 the NZ Banking Group have no material loans and deposits that were subject to set-off agreements (31 March 2009: nil, 30 September 2009: nil).

Note 3 Non-interest income

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Fees and commissions						
Transaction fees and commissions	111	125	243	10	12	22
Lending fees (loan and risk)	26	48	95	4	3	8
Insurance commissions received	3	3	6	-	-	-
Other non-risk fee income	17	6	16	10	5	13
Total fees and commissions	157	182	360	24	20	43
Wealth management revenue						
Fees from trust and other fiduciary activities	62	51	111	-	-	-
Net life insurance income and change in policy liabilities	(20)	(14)	(31)	-	-	-
Total wealth management revenue	42	37	80	-	-	-
Trading income						
Foreign exchange	34	71	91	34	71	91
Other	30	63	45	30	63	45
Total trading income	64	134	136	64	134	136
Gains/(losses) on ineffective hedges	6	(4)	3	-	-	-
Share of net profit of associate	-	-	-	-	-	-
Other non-interest income						
Net gains on derivatives held for risk management purposes	9	19	25	15	14	16
Dividend income	-	-	2	-	-	-
Rental income	1	1	1	-	-	-
Gains on disposal of property, plant and equipment	-	-	3	-	-	-
Total other non-interest income	10	20	31	15	14	16
Total non-interest income	279	369	610	103	168	195

Note 4 Operating expenses

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Salaries and other staff expenses						
Salaries and wages	173	168	342	16	15	37
Employee entitlements	2	3	10	-	-	-
Superannuation costs:						
Defined contribution scheme	13	11	22	1	1	2
Defined benefit scheme	-	1	1	-	-	-
Share-based payments	1	1	3	-	-	-
Restructuring costs	-	1	1	-	-	-
Other	5	6	12	-	-	-
Total salaries and other staff expenses	194	191	391	17	16	39
Equipment and occupancy expenses						
Operating lease rentals	30	24	54	-	-	1
Depreciation:						
Leasehold improvements	4	4	9	-	-	-
Furniture and equipment	5	6	12	-	-	-
Equipment repairs and maintenance	6	3	8	-	-	-
Electricity, water and rates	1	1	3	-	-	-
Other	1	4	12	-	-	-
Total equipment and occupancy expenses	47	42	98	-	-	1
Other expenses						
Impairment charges on other intangible assets	-	-	3	-	-	-
Software amortisation costs	20	22	45	-	-	-
Non-lending losses	1	1	3	-	-	1
Consultancy fees and other professional services	36	39	82	6	9	17
Auditors' remuneration (refer to Note 5)	1	1	2	-	-	1
Stationery	6	6	12	-	-	-
Postage and freight	8	8	17	-	-	1
Telecommunication costs	-	-	1	-	-	1
Advertising	12	13	25	-	-	-
Training	3	2	6	-	-	-
Travel	5	4	7	2	1	1
Outsourcing	42	40	79	2	1	1
Related entities – management fees	(6)	1	22	1	2	18
Other	6	13	15	1	6	6
Total other expenses	134	150	319	12	19	47
Total operating expenses	375	383	808	29	35	87

The NZ Banking Group made donations of \$67,000 during the six months ended 31 March 2010 (31 March 2009: \$43,000, 30 September 2009: \$75,000).

Notes to the financial statements

Note 5 Auditors' remuneration

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$'000	Six Months Ended 31 March 2009 Unaudited \$'000	Year Ended 30 September 2009 Audited \$'000	Six Months Ended 31 March 2010 Unaudited \$'000	Six Months Ended 31 March 2009 Unaudited \$'000	Year Ended 30 September 2009 Audited \$'000
Auditor of the parent entity						
Audit and review of financial report	653	570	1,703	269	244	515
Other audit related work	18	14	275	7	7	138
Total audit and other assurance service	671	584	1,978	276	251	653
Taxation	45	38	38	15	19	19
Other services	96	27	43	-	-	-
Total non-audit fees	141	65	81	15	19	19
Total remuneration for audit and non-audit services	812	649	2,059	291	270	672

It is the NZ 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 NZ Banking Group is important.

As described above, these assignments relate principally to audit related services (Sarbanes-Oxley reporting to the Overseas Banking Group), other assurance services (assurance provided on certain financial information) and taxation compliance and advice services. The external auditors also provide audit and non-audit services to non-consolidated entities including non-consolidated trusts of which the NZ Banking Group is manager or responsible entity and non-consolidated superannuation funds or pension funds. During the six months ended 31 March 2010, the fees in respect of these services were approximately \$290,000 (31 March 2009: \$645,000, 30 September 2009: \$832,000).

All amounts disclosed above are GST exclusive.

Note 6 Impairment charges on loans

	NZ Banking Group				NZ Branch			
	Six Months Ended 31 March 2010 – Unaudited				Six Months Ended 31 March 2010 – Unaudited			
	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provisions	33	49	5	87	-	-	2	2
Individually assessed provisions	42	-	78	120	-	-	15	15
Bad debt write-off direct to the income statement	5	27	5	37	-	-	-	-
Interest adjustments	(2)	(7)	(15)	(24)	-	-	(5)	(5)
Total impairment charges on loans	78	69	73	220	-	-	12	12

	NZ Banking Group				NZ Branch			
	Six Months Ended 31 March 2009 – Unaudited				Six Months Ended 31 March 2009 – Unaudited			
	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provisions	11	1	111	123	-	-	23	23
Individually assessed provisions	38	-	156	194	-	-	-	-
Bad debt write-off direct to the income statement	2	29	1	32	-	-	-	-
Interest adjustments	(1)	(2)	(8)	(11)	-	-	(1)	(1)
Total impairment charges on loans	50	28	260	338	-	-	22	22

	NZ Banking Group				NZ Branch			
	Year Ended 30 September 2009 – Audited				Year Ended 30 September 2009 – Audited			
	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Consumer for Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provisions	12	(1)	212	223	-	-	75	75
Individually assessed provisions	86	-	328	414	-	-	1	1
Bad debt write-off direct to the income statement	7	73	8	88	-	-	-	-
Interest adjustments	(3)	(10)	(22)	(35)	-	-	(6)	(6)
Total impairment charges on loans	102	62	526	690	-	-	70	70

Note 7 Income tax expense

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Income tax expense						
Current tax:						
Current period/year:						
– On operating profit	165	198	257	75	74	115
– New Zealand structured finance transactions	(188)	55	918	(112)	55	737
Prior period/year	4	3	3	1	-	-
Deferred tax (refer to Note 16):						
Current period/year	(55)	(75)	(88)	(12)	(1)	(19)
Prior period/year	(3)	(3)	(4)	-	-	(2)
Total income tax expense	(77)	178	1,086	(48)	128	831
Profit before income tax expense	378	419	592	211	255	318
Tax calculated at tax rate of 30%	113	126	178	63	77	95
Income not subject to tax	(4)	(5)	(9)	-	-	-
Expenses not deductible for tax purposes	-	2	1	-	1	1
New Zealand structured finance transactions	(188)	55	918	(112)	55	737
Prior period/year adjustments	1	-	(1)	1	-	(2)
Other items	1	-	(1)	-	(5)	-
Total income tax expense	(77)	178	1,086	(48)	128	831

The balance of the dividend withholding payment account as at 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil) and there was no movement during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Note 8 Imputation credit account

	NZ Banking Group			NZ Branch		
	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Six Months Ended 31 March 2010 Unaudited \$m	Six Months Ended 31 March 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
Balance at beginning of the period/year	1,206	1,007	1,007	289	289	289
Transfers	-	-	-	-	(56)	(56)
Imputation credits attached to dividends received	-	3	4	-	-	-
Imputation credits attached to dividends paid	(4)	(31)	(31)	-	-	-
Income tax payments	298	117	226	273	41	56
Balance at end of the period/year	1,500	1,096	1,206	562	274	289

The availability of these imputation credits is contingent on the Overseas Bank meeting the shareholder continuity rules. As a result of the merger with St. George Bank Limited and its subsidiaries during the year ended 30 September 2009, it is possible that credits of approximately \$850 million for the NZ Banking Group (including \$234 million for the NZ Branch) have been forfeited. The NZ Banking 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 NZ Banking Group.

Note 9 Due from other financial institutions

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Loans and advances to other banks	21	3	843	18	-	841
Total due from other financial institutions	21	3	843	18	-	841
Due from other financial institutions:						
At call	21	-	843	18	-	841
Term	-	3	-	-	-	-
Total due from other financial institutions	21	3	843	18	-	841
Due within 12 months	21	3	843	18	-	841
Due after 12 months	-	-	-	-	-	-
Total due from other financial institutions	21	3	843	18	-	841

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

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Trading securities						
Listed:						
NZ Government securities	2,767	2,749	2,669	334	429	300
NZ corporate securities	10	51	4	10	51	4
Other	-	-	2	-	-	2
Total listed securities	2,777	2,800	2,675	344	480	306
Unlisted:						
NZ corporate securities:						
Certificates of deposit	3,618	4,161	2,181	1,441	1,829	129
Corporate bonds	59	72	50	59	72	50
Commercial paper	47	40	8	47	40	8
Offshore securities	23	-	-	23	-	-
Total unlisted securities	3,747	4,273	2,239	1,570	1,941	187
Securities purchased under agreement to resell	274	418	491	274	418	491
Total trading securities and other financial assets designated at fair value	6,798	7,491	5,405	2,188	2,839	984
Due within 12 months	6,798	7,491	5,405	2,188	2,839	984
Due after 12 months	-	-	-	-	-	-
Total trading securities and other financial assets designated at fair value	6,798	7,491	5,405	2,188	2,839	984

As at 31 March 2010 the NZ Banking Group and the NZ Branch had \$73 million and \$73 million (31 March 2009: \$376 million and \$176 million, 30 September 2009: \$395 million and \$395 million) of trading securities respectively that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 11 Available-for-sale securities

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Listed securities						
Overseas public securities	56	38	37	-	-	-
Total available-for-sale securities	56	38	37	-	-	-
Due within 12 months	56	-	-	-	-	-
Due after 12 months	-	38	37	-	-	-
Total available-for-sale securities	56	38	37	-	-	-
Balance at beginning of the period/year	37	35	35	-	-	-
Net unrealised gains from changes in fair value	19	3	2	-	-	-
Balance at end of the period/year	56	38	37	-	-	-

As at 31 March 2010 no available-for-sale securities pledged as collateral for the NZ Banking Group's liabilities (31 March 2009: nil, 30 September 2009: nil).

Note 12 Loans

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Overdrafts	1,341	1,455	1,369	355	327	312
Credit card outstandings	1,225	1,165	1,182	-	-	-
Money market loans	970	1,554	1,106	319	927	532
Term loans:						
Housing	33,460	31,940	32,364	-	-	-
Non-housing	18,859	19,432	19,235	5,580	6,464	6,252
Other	1,127	789	947	738	593	578
Total gross loans	56,982	56,335	56,203	6,992	8,311	7,674
Provisions for impairment charges on loans	(767)	(605)	(611)	(95)	(46)	(91)
Total net loans	56,215	55,730	55,592	6,897	8,265	7,583
Due within 12 months	13,219	14,536	14,176	6,720	8,065	7,463
Due after 12 months	42,996	41,194	41,416	177	200	120
Total net loans	56,215	55,730	55,592	6,897	8,265	7,583

The repurchase cash amount of the NZ Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities as at 31 March 2010 was nil (31 March 2009: \$2,064 million, 30 September 2009: \$1,814 million), with underlying securities to the value of nil (31 March 2009: \$2,559 million, 30 September 2009: \$2,253 million) provided under this arrangement.

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

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

	NZ Banking Group				NZ Branch			
	Six months ended 31 March 2010 – Unaudited				Six months ended 31 March 2010 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Neither past due nor impaired								
Strong	-	-	8,203	8,203	-	-	5,813	5,813
Good/Satisfactory	32,005	1,470	10,269	43,744	-	-	761	761
Weak	-	-	2,203	2,203	-	-	346	346
Total neither past due nor impaired	32,005	1,470	20,675	54,150	-	-	6,920	6,920
Past due assets 1 to 89 days¹								
Balance at beginning of the period	850	131	426	1,407	-	-	4	4
Additions	2,855	431	1,555	4,841	-	-	43	43
Deletions	(2,696)	(421)	(1,370)	(4,487)	-	-	(4)	(4)
Balance at end of the period	1,009	141	611	1,761	-	-	43	43
Past due assets 90+ days¹								
Balance at beginning of the period	88	26	232	346	-	-	-	-
Additions	137	41	170	348	-	-	-	-
Deletions	(139)	(40)	(203)	(382)	-	-	-	-
Balance at end of the period	86	27	199	312	-	-	-	-
Total past due assets	1,095	168	810	2,073	-	-	43	43
Individually impaired assets								
Balance at beginning of the period	351	-	324	675	-	-	5	5
Additions	198	-	290	488	-	-	25	25
Amounts written off	(38)	-	(17)	(55)	-	-	(1)	(1)
Returned to performing or repaid	(151)	-	(198)	(349)	-	-	-	-
Balance at end of the period	360	-	399	759	-	-	29	29
Restructured assets								
Balance at beginning of the period	-	-	1	1	-	-	-	-
Additions	-	-	-	-	-	-	-	-
Deletions	-	-	(1)	(1)	-	-	-	-
Balance at end of the period	-	-	-	-	-	-	-	-
Total impaired assets	360	-	399	759	-	-	29	29
Total gross loans^{2, 3}	33,460	1,638	21,884	56,982	-	-	6,992	6,992
Individually assessed provisions								
Balance at beginning of the period	66	-	86	152	-	-	1	1
Impairment charges on loans:								
New provisions	57	-	82	139	-	-	15	15
Recoveries	(15)	-	(4)	(19)	-	-	-	-
Impairment charges on loans written off	(30)	-	(9)	(39)	-	-	(1)	(1)
Balance at end of the period	78	-	155	233	-	-	15	15
Collectively assessed provisions								
Balance at beginning of the period	42	60	408	510	-	-	107	107
Impairment charges on loans	33	49	5	87	-	-	2	2
Balance at end of the period	75	109	413	597	-	-	109	109
Total provision for impairment charges and credit commitments	153	109	568	830	-	-	124	124
Less: Provision for credit commitments (refer to Note 22)	-	-	(63)	(63)	-	-	(29)	(29)
Total impairment provisions	153	109	505	767	-	-	95	95
Total net loans	33,307	1,529	21,379	56,215	-	-	6,897	6,897

1 Past due assets are not impaired assets.

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

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

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

	NZ Banking Group				NZ Branch			
	Six months ended 31 March 2009 – Unaudited				Six months ended 31 March 2009 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Neither past due nor impaired								
Strong	-	-	8,606	8,606	-	-	6,871	6,871
Good/Satisfactory	30,266	1,463	12,091	43,820	-	-	1,089	1,089
Weak	-	-	787	787	-	-	226	226
Total neither past due nor impaired	30,266	1,463	21,484	53,213	-	-	8,186	8,186
Past due assets 1 to 89 days¹								
Balance at beginning of the period	1,394	156	845	2,395	-	-	256	256
Additions	3,802	459	2,009	6,270	-	-	-	-
Deletions	(3,960)	(462)	(2,217)	(6,639)	-	-	(168)	(168)
Balance at end of the period	1,236	153	637	2,026	-	-	88	88
Past due assets 90+ days¹								
Balance at beginning of the period	75	25	122	222	-	-	1	1
Additions	200	48	292	540	-	-	36	36
Deletions	(157)	(42)	(177)	(376)	-	-	-	-
Balance at end of the period	118	31	237	386	-	-	37	37
Total past due assets	1,354	184	874	2,412	-	-	125	125
Individually impaired assets								
Balance at beginning of the period	190	-	88	278	-	-	-	-
Additions	234	-	335	569	-	-	-	-
Amounts written off	(15)	-	(31)	(46)	-	-	-	-
Returned to performing or repaid	(89)	-	(2)	(91)	-	-	-	-
Balance at end of the period	320	-	390	710	-	-	-	-
Restructured assets								
Balance at beginning of the period	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-
Deletions	-	-	-	-	-	-	-	-
Balance at end of the period	-	-	-	-	-	-	-	-
Total impaired assets	320	-	390	710	-	-	-	-
Total gross loans^{2, 3}	31,940	1,647	22,748	56,335	-	-	8,311	8,311
Individually assessed provisions								
Balance at beginning of the period	24	-	42	66	-	-	-	-
Impairment charges on loans:								
New provisions	44	-	158	202	-	-	-	-
Recoveries	(6)	-	(2)	(8)	-	-	-	-
Impairment charges on loans written off	(2)	-	(23)	(25)	-	-	-	-
Balance at end of the period	60	-	175	235	-	-	-	-
Collectively assessed provisions								
Balance at beginning of the period	30	61	196	287	-	-	32	32
Impairment charges on loans	11	1	111	123	-	-	23	23
Balance at end of the period	41	62	307	410	-	-	55	55
Total provision for impairment charges and credit commitments	101	62	482	645	-	-	55	55
Less: Provision for credit commitments (refer to Note 22)	-	-	(40)	(40)	-	-	(9)	(9)
Total impairment provisions	101	62	442	605	-	-	46	46
Total net loans	31,839	1,585	22,306	55,730	-	-	8,265	8,265

¹ Past due assets are not impaired assets.

² The NZ Banking Group's policy is to not forgo interest on individually impaired, restructured or past due assets.

³ The NZ Banking Group does not have other assets under administration or any financial, real estate or other assets acquired through security enforcement.

Notes to the financial statements

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

	NZ Banking Group				NZ Branch			
	Year ended 30 September 2009 – Audited				Year ended 30 September 2009 – Audited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Neither past due nor impaired								
Strong	-	-	8,850	8,850	-	-	6,390	6,390
Good/Satisfactory	31,075	1,487	10,062	42,624	-	-	884	884
Weak	-	-	2,300	2,300	-	-	391	391
Total neither past due nor impaired	31,075	1,487	21,212	53,774	-	-	7,665	7,665
Past due assets 1 to 89 days¹								
Balance at beginning of the year	1,394	156	845	2,395	-	-	256	256
Additions	6,947	865	3,708	11,520	-	-	4	4
Deletions	(7,491)	(890)	(4,127)	(12,508)	-	-	(256)	(256)
Balance at end of the year	850	131	426	1,407	-	-	4	4
Past due assets 90+ days¹								
Balance at beginning of the year	75	25	122	222	-	-	1	1
Additions	361	94	560	1,015	-	-	-	-
Deletions	(348)	(93)	(450)	(891)	-	-	(1)	(1)
Balance at end of the year	88	26	232	346	-	-	-	-
Total past due assets	938	157	658	1,753	-	-	4	4
Individually impaired assets								
Balance at beginning of the year	190	-	88	278	-	-	-	-
Additions	486	-	606	1,092	-	-	5	5
Amounts written off	(64)	-	(290)	(354)	-	-	-	-
Returned to performing or repaid	(261)	-	(80)	(341)	-	-	-	-
Balance at end of the year	351	-	324	675	-	-	5	5
Restructured assets								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Additions	-	-	1	1	-	-	-	-
Deletions	-	-	-	-	-	-	-	-
Balance at end of the year	-	-	1	1	-	-	-	-
Total impaired assets	351	-	325	676	-	-	5	5
Total gross loans^{2, 3}	32,364	1,644	22,195	56,203	-	-	7,674	7,674
Individually assessed provisions								
Balance at beginning of the year	24	-	42	66	-	-	-	-
Impairment charges on loans:								
New provisions	102	-	333	435	-	-	1	1
Recoveries	(16)	-	(5)	(21)	-	-	-	-
Impairment charges on loans written off	(44)	-	(284)	(328)	-	-	-	-
Balance at end of the year	66	-	86	152	-	-	1	1
Collectively assessed provisions								
Balance at beginning of the year	30	61	196	287	-	-	32	32
Impairment charges on loans	12	(1)	212	223	-	-	75	75
Balance at end of the year	42	60	408	510	-	-	107	107
Total provision for impairment charges and credit commitments	108	60	494	662	-	-	108	108
Less: Provision for credit commitments (refer to Note 22)	-	-	(51)	(51)	-	-	(17)	(17)
Total impairment provisions	108	60	443	611	-	-	91	91
Total net loans	32,256	1,584	21,752	55,592	-	-	7,583	7,583

1 Past due assets are not impaired assets.

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

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

Note 14 Goodwill and other intangible assets

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Goodwill						
Cost	547	547	547	-	-	-
Accumulated impairment	(22)	(22)	(22)	-	-	-
Net carrying amount of goodwill	525	525	525	-	-	-
Computer software						
Cost	258	229	239	2	2	2
Accumulated amortisation and impairment	(162)	(134)	(141)	(2)	(2)	(2)
Net carrying amount of computer software	96	95	98	-	-	-
Total goodwill and other intangible assets	621	620	623	-	-	-

	NZ Banking Group			NZ Branch		
	Goodwill \$m	Computer Software \$m	Total \$m	Goodwill \$m	Computer Software \$m	Total \$m
Balance as at 1 October 2009	525	98	623	-	-	-
Additions	-	18	18	-	-	-
Amortisation	-	(20)	(20)	-	-	-
Net carrying amount as at 31 March 2010 (unaudited)	525	96	621	-	-	-
Balance as at 1 October 2008	525	102	627	-	-	-
Additions	-	15	15	-	-	-
Amortisation	-	(22)	(22)	-	-	-
Net carrying amount as at 31 March 2009 (unaudited)	525	95	620	-	-	-
Balance as at 1 October 2008	525	102	627	-	-	-
Additions	-	44	44	-	-	-
Amortisation	-	(45)	(45)	-	-	-
Impairment	-	(3)	(3)	-	-	-
Net carrying amount as at 30 September 2009 (audited)	525	98	623	-	-	-

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

The recoverable amount of CGUs is determined annually based on value-in-use calculations and was last performed at 30 September 2009. These calculations used discounted cash flow projections based on an approved two-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 2011 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 NZ Banking Group's cost of capital of 15.7% as at 30 September 2009.

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

Goodwill has been allocated to the following CGUs:

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Westpac New Zealand	512	512	512	-	-	-
BT Funds Management (NZ) Limited	13	13	13	-	-	-
Net carrying amount of goodwill	525	525	525	-	-	-

Note 15 Property, plant and equipment

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Leasehold improvements						
Cost	180	159	165	-	-	-
Accumulated depreciation and impairment	(101)	(96)	(97)	-	-	-
Net carrying amount of leasehold improvements	79	63	68	-	-	-
Furniture and equipment						
Cost	186	197	193	3	3	3
Accumulated depreciation and impairment	(161)	(169)	(167)	(3)	(3)	(3)
Net carrying amount of furniture and equipment	25	28	26	-	-	-
Total property, plant and equipment	104	91	94	-	-	-

	NZ Banking Group			NZ Branch		
	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m
Balance as at 1 October 2009	68	26	94	-	-	-
Additions	15	5	20	-	-	-
Disposals	-	(1)	(1)	-	-	-
Depreciation	(4)	(5)	(9)	-	-	-
Net carrying amount as at 31 March 2010 (unaudited)	79	25	104	-	-	-
Balance as at 1 October 2008	46	32	78	-	-	-
Additions	21	2	23	-	-	-
Depreciation	(4)	(6)	(10)	-	-	-
Net carrying amount as at 31 March 2009 (unaudited)	63	28	91	-	-	-
Balance as at 1 October 2008	46	32	78	-	-	-
Additions	31	8	39	-	-	-
Disposals	-	(2)	(2)	-	-	-
Depreciation	(9)	(12)	(21)	-	-	-
Net carrying amount as at 30 September 2009 (audited)	68	26	94	-	-	-

Property, plant and equipment under construction

Included in property, plant and equipment are leasehold improvements in the NZ Banking Group with a carrying value of \$57 million (31 March 2009: \$39 million, 30 September 2009: \$46 million) that are under construction.

Note 16 Deferred tax assets and liabilities

Deferred tax assets

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Deferred tax assets are attributable to the following:						
Property, plant and equipment	7	5	4	-	-	-
Provision for loan impairment	250	194	199	38	16	32
Provision for employee entitlements	20	21	21	1	(2)	1
Interest on New Zealand structured finance transactions	74	-	-	61	-	-
Other temporary differences	11	5	8	10	-	4
Amounts recognised directly in equity:						
Cash flow hedges	51	-	71	-	-	-
Other amounts recognised directly in equity	1	3	3	3	3	3
Set-off of deferred tax liabilities	-	83	-	-	(17)	-
Balance at end of the period/year	414	311	306	113	-	40
To be recovered within 12 months	287	147	147	96	-	23
To be recovered after more than 12 months	127	164	159	17	-	17
Balance at end of the period/year	414	311	306	113	-	40
Movements						
Balance at beginning of the period/year	306	164	164	40	-	-
Prior period/year adjustments	3	3	4	-	-	2
Set-off of deferred tax liabilities	-	83	-	-	(17)	-
Credited to the income statement (refer to Note 7)	55	62	88	12	17	13
Interest on New Zealand structured finance transactions	74	-	-	61	-	-
Other temporary differences	(2)	1	26	-	-	25
(Charged)/credited to equity	(22)	(2)	24	-	-	-
Balance at end of the period/year	414	311	306	113	-	40
The deferred tax charge in the income tax expense comprises the following temporary differences:						
Property, plant and equipment	3	1	-	-	-	-
Provision for loan impairment	51	88	93	6	10	26
Provision for employee entitlements	(1)	(7)	(7)	-	(5)	(2)
Other temporary differences	2	(20)	2	6	12	(11)
Total deferred tax charge	55	62	88	12	17	13
The deferred tax charge in equity comprises the following temporary differences:						
Cash flow hedges	(20)	(2)	35	-	-	-
Provision for employee entitlements	(2)	-	(11)	-	-	-
Total deferred tax charge	(22)	(2)	24	-	-	-

Note 16 Deferred tax assets and liabilities (continued)

Deferred tax liabilities

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Deferred tax liabilities are attributable to the following:						
Other temporary differences	-	23	-	-	22	-
Amounts recognised directly in equity:						
Cash flow hedges	-	(106)	-	-	-	-
Set-off of deferred tax assets	-	83	-	-	(17)	-
Balance at end of the period/year	-	-	-	-	5	-
To be settled within 12 months	-	-	-	-	5	-
To be settled after 12 months	-	-	-	-	-	-
Balance at end of the period/year	-	-	-	-	5	-
Movements						
Balance at beginning of the period/year	-	-	-	-	6	6
Set-off of deferred tax assets	-	83	-	-	(17)	-
(Credited)/charged to the income statement (refer to Note 7)	-	(13)	-	-	16	(6)
Credited to equity	-	(70)	-	-	-	-
Balance at end of the period/year	-	-	-	-	5	-
The deferred tax charge in the income tax expense comprises the following temporary differences:						
Other temporary differences	-	(13)	-	-	16	(6)
Total deferred tax charge	-	(13)	-	-	16	(6)
The deferred tax charge in equity comprises the following temporary differences:						
Cash flow hedges	-	(70)	-	-	-	-
Total deferred tax charge	-	(70)	-	-	-	-

As at 31 March 2010 the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (31 March 2009: nil, 30 September 2009: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, effective 1 April 2011. The NZ Banking Group has reviewed the carrying amount of its deferred tax assets in light of this company tax rate reduction. The announcement does not constitute an adjusting event and the NZ Banking Group's review concluded that the impact of these changes is not material.

Note 17 Other assets

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Accrued interest receivable	133	152	132	19	24	15
Securities sold not yet delivered	15	68	276	15	68	276
Trade debtors and prepayments	40	46	3	1	16	-
Other	19	657	87	11	638	66
Total other assets	207	923	498	46	746	357
Due within 12 months	207	923	498	46	746	357
Due after 12 months	-	-	-	-	-	-
Total other assets	207	923	498	46	746	357

Note 18 Due to other financial institutions

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Interest bearing	594	227	233	594	227	233
Non-interest bearing, repayable at call	3	12	252	3	12	252
Total due to other financial institutions	597	239	485	597	239	485
Due to other financial institutions:						
At call	597	239	485	597	239	485
Total due to other financial institutions	597	239	485	597	239	485
Due within 12 months	597	239	485	597	239	485
Due after 12 months	-	-	-	-	-	-
Total due to other financial institutions	597	239	485	597	239	485

Note 19 Deposits

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Deposits at fair value						
Certificates of deposit	2,426	4,069	3,468	-	-	-
Total deposits at fair value	2,426	4,069	3,468	-	-	-
Deposits at amortised cost						
Non-interest bearing, repayable at call	2,623	2,342	2,386	106	116	166
Other interest bearing:						
At call	13,125	14,181	12,987	2,666	3,256	2,368
Term	18,760	16,203	17,571	1,625	734	1,382
Total deposits at amortised cost	34,508	32,726	32,944	4,397	4,106	3,916
Total deposits	36,934	36,795	36,412	4,397	4,106	3,916
Due within 12 months	35,737	35,475	34,877	4,396	4,079	3,904
Due after 12 months	1,197	1,320	1,535	1	27	12
Total deposits	36,934	36,795	36,412	4,397	4,106	3,916

The NZ Branch held no retail deposits to individuals as at 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Note 20 Trading liabilities and other financial liabilities designated at fair value

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Held for trading						
Securities sold short	256	279	418	256	279	418
Securities sold under agreements to repurchase	74	2,472	2,280	74	176	395
Total trading liabilities	330	2,751	2,698	330	455	813
Other financial liabilities designated at fair value	-	-	-	-	-	-
Total trading liabilities and other financial liabilities designated at fair value	330	2,751	2,698	330	455	813
Due within 12 months	330	2,751	2,698	330	455	813
Due after 12 months	-	-	-	-	-	-
Total trading liabilities and other financial liabilities designated at fair value	330	2,751	2,698	330	455	813

Notes to the financial statements

Note 21 Debt issues

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Short-term debt						
Commercial paper	8,278	7,458	6,027	-	-	-
Total short-term debt	8,278	7,458	6,027	-	-	-
Long-term debt						
Euro medium-term notes	6,282	2,151	4,139	-	-	-
Domestic medium-term notes	2,250	1,883	2,203	-	-	-
Total long-term debt	8,532	4,034	6,342	-	-	-
Total debt issues	16,810	11,492	12,369	-	-	-
Government guaranteed debt ¹	4,279	-	4,129	-	-	-
Non-government guaranteed debt, but secured	12,531	11,492	8,240	-	-	-
Total debt issues	16,810	11,492	12,369	-	-	-
Debt issues at amortised cost	8,532	1,753	6,287	-	-	-
Debt issues at fair value	8,278	9,739	6,082	-	-	-
Total debt issues	16,810	11,492	12,369	-	-	-
Due within 12 months	8,352	9,859	6,767	-	-	-
Due after 12 months	8,458	1,633	5,602	-	-	-
Total debt issues	16,810	11,492	12,369	-	-	-

¹ For further information on government guaranteed debt please refer to Guarantee arrangements on page 5.

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

Note 22 Provisions

	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-lending Losses \$m	Impairment on Credit Commit- ments \$m	Restruct- uring \$m	Total \$m
NZ Banking Group						
For the six months ended 31 March 2010						
Balance as at 1 October 2009	9	43	2	51	1	106
Additional provisions recognised	-	9	1	12	-	22
Utilised during the period	(1)	(16)	(1)	-	-	(18)
Balance as at 31 March 2010 (unaudited)	8	36	2	63	1	110
For the six months ended 31 March 2009						
Balance as at 1 October 2008	9	39	5	28	-	81
Additional provisions recognised	-	11	1	12	1	25
Utilised during the period	-	(25)	(1)	-	-	(26)
Balance as at 31 March 2009 (unaudited)	9	25	5	40	1	80
For the year ended 30 September 2009						
Balance as at 1 October 2008	9	39	5	28	-	81
Additional provisions recognised	-	30	3	23	1	57
Utilised during the year	-	(26)	(6)	-	-	(32)
Balance as at 30 September 2009 (audited)	9	43	2	51	1	106

Note 22 Provisions (continued)

	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-lending Losses \$m	Impairment on Credit Commitments \$m	Restructuring \$m	Total \$m
NZ Branch						
For the six months ended 31 March 2010						
Balance as at 1 October 2009	1	9	-	17	1	28
Additional provisions recognised	-	4	-	12	-	16
Utilised during the period	-	(8)	-	-	-	(8)
Balance as at 31 March 2010 (unaudited)	1	5	-	29	1	36
For the six months ended 31 March 2009						
Balance as at 1 October 2008	1	5	-	7	-	13
Additional provisions recognised	-	4	-	2	1	7
Utilised during the period	-	(7)	-	-	-	(7)
Balance as at 31 March 2009 (unaudited)	1	2	-	9	1	13
For the year ended 30 September 2009						
Balance as at 1 October 2008	1	5	-	7	-	13
Additional provisions recognised	-	15	1	10	1	27
Utilised during the year	-	(11)	(1)	-	-	(12)
Balance as at 30 September 2009 (audited)	1	9	-	17	1	28

Provisions represent costs the NZ Banking Group and the NZ Branch 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 31 March 2010 are \$74 million (31 March 2009: \$55 million, 30 September 2009: \$63 million) for the NZ Banking Group and \$31 million (31 March 2009: \$11 million, 30 September 2009: \$19 million) for the NZ Branch.

Note 23 Other liabilities

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Accrued interest payable	280	286	299	11	9	9
Securities purchased but not yet delivered	32	132	104	32	132	104
Claims reserves	14	12	13	-	-	-
Credit card loyalty programme	26	26	27	-	-	-
Retirement benefit deficit	14	58	30	-	-	-
Trade creditors and other accrued expenses	119	90	90	6	7	7
Other	55	563	100	3	499	2
Total other liabilities	540	1,167	663	52	647	122
Due within 12 months	526	1,109	633	52	647	122
Due after 12 months	14	58	30	-	-	-
Total other liabilities	540	1,167	663	52	647	122

Note 24 Subordinated debentures

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Subordinated debentures	796	1,032	790	796	1,032	790
Total subordinated debentures	796	1,032	790	796	1,032	790

On 5 April 2004, the NZ Branch issued US\$525 million of Junior Subordinated Convertible Debentures to the trustee of the Tavarua Funding Trust IV ('**Funding Trust IV**'), being a member of the Overseas Banking Group. The investment by Funding Trust IV in the convertible debentures was ultimately funded from the proceeds (net of issue costs) of approximately US\$525 million of Trust Preferred Securities issued by the Overseas Banking Group in the United States of America.

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

Notes to the financial statements

Note 24 Subordinated debentures (continued)

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

The convertible debentures have no stated maturity, but will automatically convert into American Depositary Receipts ('ADRs') each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US\$25) on 31 March 2053, or earlier in the event that a distribution is not made or certain other events occur. The holders of the ADRs will, in certain circumstances, have the right to convert their Overseas Bank preference shares into a variable number of Overseas Bank ordinary shares on 31 March 2054 by giving notice to the Overseas Bank.

With the prior written consent of APRA, if required, the Overseas Bank may elect to redeem the convertible debentures for cash before 31 March 2016 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 31 March 2016. The holders of the convertible debentures do not have the option to require redemption of these instruments.

Note 25 Priority of financial liabilities in the event of liquidation

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Deposits at amortised cost	34,508	32,726	32,944	4,397	4,106	3,916
Deposits at fair value	2,426	4,069	3,468	-	-	-
Debt issues	16,810	11,492	12,369	-	-	-
Due to other financial institutions	597	239	485	597	239	485
Trading liabilities and other financial liabilities designated at fair value	330	2,751	2,698	330	455	813
Derivative financial instruments	4,938	10,704	6,970	4,938	10,704	6,970
Other liabilities	526	1,109	633	52	647	122
Subordinated debentures	796	1,032	790	796	1,032	790
Due to related entities	6,708	9,443	8,673	6,797	9,390	7,956
Total financial liabilities	67,639	73,565	69,030	17,907	26,573	21,052

For further details please refer to the section on Ranking of local creditors in liquidation on page 7.

Note 26 Convertible debentures

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Convertible debentures	1,284	1,284	1,284	1,284	1,284	1,284

On 13 August 2003, the NZ Branch issued \$1,284 million (net of issue costs) of Junior Subordinated Convertible Debentures to the trustee of the Tavarua Funding Trust III ('Funding Trust III'), being a member of the Overseas Banking Group. The investment by Funding Trust III in the convertible debentures was ultimately funded by the proceeds (net of issue costs) of approximately US\$750 million of Trust Preferred Securities issued by the Overseas Banking Group in the United States of America.

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

The convertible debentures will pay semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 7.57% up to but excluding 30 September 2013. From, and including, 30 September 2013 the convertible debentures will pay quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate equal to the New Zealand Bank Bill Rate plus 2.20% per annum. The convertible debentures will only pay distributions to the extent they are declared by the Board, or an authorised committee of the Board. Any distribution is subject to the Overseas Bank having sufficient distributable profits unless approved by APRA. If certain other conditions exist a distribution is not permitted to be declared.

The convertible debentures have no stated maturity, but will automatically convert into ADRs each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US\$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur.

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

With the prior written consent of APRA, if required, the NZ Branch may elect to redeem the convertible debentures for cash before 30 September 2013 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 30 September 2013. The holders of the convertible debentures do not have an option to require redemption of these instruments.

Note 27 Related entities

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of the Overseas Banking Group including the NZ Branch and the following entities as at 31 March 2010 whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business:

Name of controlled entity	Principal activity	Notes
BLE Capital (NZ) Limited	Finance company	
BT Financial Group (NZ) Limited	Holding company	
BT Funds Management (NZ) Limited	Funds management company	
Hastings Forestry Investments Limited	Non-trading company	
St.George New Zealand Limited	Non-trading company	
St.George Financial Investments New Zealand Limited	Non-trading company	
Tasman Funding No. 1 Limited	Funding company	
Tasman Funding No. 2 Limited	Funding company	
PF No. 2	Funding entity	Jointly controlled by Tasman Funding No. 1 Limited and Tasman Funding No.2 Limited
Westpac Financial Services Group - NZ - Limited	Holding company	
Westpac Life - NZ - Limited	Life insurance company	
Westpac Nominees - NZ - Limited	Nominee company	
Westpac Superannuation Nominees - NZ - Limited	Nominee company	
Westpac Group Investment - NZ - Limited	Holding company	
Westpac Holdings - NZ - Limited	Holding company	
Augusta (1962) Limited	Non-trading company	
HLT Custodian Trust	Custodian entity	
MIF Custodian Trust	Custodian entity	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
Westpac Capital - NZ - Limited	Finance and holding company	
Aotearoa Financial Services Limited	Non-trading company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
Westpac Overseas Investments Limited	Finance company	
Westpac Equity Investments NZ Limited	Finance company	
Westpac Finance Limited	Finance company	
WestpacTrust Securities NZ Limited	Funding company	
Westpac New Zealand Group Limited	Holding company	
Westpac New Zealand Limited	Registered bank	
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 and funding 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 – 9.5% owned
Westpac NZ Securitisation Limited	Funding company	Incorporated 14 October 2008
Westpac Term PIE Fund	Portfolio investment entity	Established 20 July 2009
Westpac NZ Funding Limited	Funding entity	

Note 27 Related entities (continued)

The NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets:

Name of controlled entity	Principal activity	Notes
Waratah Securities Australia Limited – NZ Branch	Funding entity	
WST - Funding Trust New Zealand – NZ Branch	Funding entity	

All entities in the NZ Banking Group are 100% owned unless otherwise stated. All entities within the NZ Banking Group have a balance date of 30 September except Westpac Term PIE Fund ('**Term PIE**') which has a balance date of 31 March. All entities within the NZ Banking Group are incorporated and domiciled in New Zealand, except TBNZ Investments (UK) Limited which is incorporated and domiciled in the United Kingdom and Waratah Securities Australia Limited which is incorporated and domiciled in Australia.

Other significant related entities of the NZ Banking Group include branches of the Overseas Banking Group based in London, Hong Kong, Sydney, New York and Singapore.

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

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The NZ Banking Group, through its subsidiaries, Westpac NZ Operations Limited (9.5%) and Westpac Holdings - NZ - Limited (9.5%), has a total qualifying interest of 19% in WNZSHL. Westpac New Zealand is considered to control both WNZSHL and WNZSL based on contractual arrangements put in place, and as such both WNZSHL and WNZSL are consolidated within the financial statements of the NZ Banking Group.

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 Westpac New Zealand to perform all customer management and account administration for Term PIE. Westpac New Zealand is Term PIE's registrar and administration manager. Westpac New Zealand 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 NZ Banking Group.

The following controlled entities ceased to be controlled during the current reporting period:

- Agri Private Capital Management Limited – struck off on 30 March 2010;
- WST - NZ Warehouse Trust – terminated on 29 January 2010; and
- Waratah Receivables Corporation (NZ) Limited – struck off on 23 October 2009.

Investment in associate

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

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Balance at beginning of the period/year	48	48	48	-	-	-
Equity share of net profit	-	-	-	-	-	-
Balance at end of the period/year	48	48	48	-	-	-

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

Nature of transactions

The NZ Banking Group has intragroup transactions with members of the Overseas Banking Group 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 Overseas Bank

The Overseas Bank provides financial market services, foreign currency, trade and interest rate risk products to the customers of Westpac New Zealand. Westpac New Zealand receives commission from these sales. Commission received for the six months ended 31 March 2010 was \$8 million (31 March 2009: \$7 million, 30 September 2009: \$11 million).

The Overseas Bank provides funding to the NZ Branch. Interest is paid on this funding at market rates.

The NZ Banking Group receives funding from the London branch of the Overseas Bank on an as needs basis.

Transactions with controlled entities of the NZ Banking Group

The NZ Branch pays subvention payments to members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Branch for the six months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

The NZ Branch provides loans to members of the NZ Banking Group. Interest is paid on these loans at market rates.

Note 27 Related entities (continued)

Transactions with other controlled entities of the Overseas Bank

The NZ Branch enters into derivative transactions with other members of the Overseas Banking Group, including the NZ Banking Group, in the normal course of business. These transactions are subject to a market standard netting agreement and, as a result, outstanding derivative balances are included in the due from related entities balance on a net basis. Management systems and operational controls are in place in order 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.

Other group investments

The NZ Banking Group had non-controlling shareholdings in the following New Zealand based entities as at 31 March 2010:

Name	Shares held by	Beneficial interest	Nature of business
Mondex New Zealand Limited	Westpac Holdings - NZ - Limited	20%	Smart card operations
Paymark Limited (previously Electronic Transaction Services Limited)	Westpac NZ Operations Limited	25%	Electronic payments processing
Interchange and Settlement Limited	Westpac NZ Operations Limited	14%	Retail payments processing

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

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

Note 28 Derivative financial instruments

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

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

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

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

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

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

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

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

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

All derivatives of the NZ Banking Group are held either in the NZ Branch or Westpac New Zealand. Derivatives with related parties are included in due from/due to related entities.

Trading

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

Hedging

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

Note 28 Derivative financial instruments (continued)

Fair value hedges

The NZ Banking Group hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets or increase in fair value of term deposits from customers denominated in local currency using swaps. The NZ Banking Group also hedges part of its interest rate risk in the fair value of fixed medium-term debt issuance denominated both in local and foreign currencies through the use of interest rate derivatives.

For the NZ Banking Group, the change in the fair value of hedging instruments designated as fair value hedges was a \$81 million gain (31 March 2009: \$290 million loss, 30 September 2009: \$126 million loss) while the change in the fair value of hedged items, attributed to the hedge risk was a \$75 million loss (31 March 2009: \$286 million gain, 30 September 2009: \$129 million gain).

Cash flow hedges

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. There were no material transactions for which cash flow hedge accounting had to be ceased during the six months ended 31 March 2010 as a result of highly probable cash flows no longer expected to occur. The NZ 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 NZ 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.

	NZ Banking Group		
	31 March 2010 – Unaudited		
	Notional	Fair Value	Fair Value
	\$m	Asset	(Liability)
		\$m	\$m
Held for trading derivatives			
Interest rate derivatives			
Futures	15,930	6	(1)
Forwards	4,209	2	(1)
Swaps	208,200	3,826	(3,176)
Options	4,721	33	(22)
Foreign exchange derivatives			
Forwards	28,455	417	(699)
Swaps	25,313	250	(451)
Total held for trading derivatives	286,828	4,534	(4,350)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	9,283	48	(255)
Foreign exchange derivatives			
Swaps	2,176	4	(68)
Total fair value hedging derivatives	11,459	52	(323)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	4,967	5	(260)
Foreign exchange derivatives			
Swaps	301	-	(5)
Total cash flow hedging derivatives	5,268	5	(265)
Total derivatives	303,555	4,591	(4,938)

Note 28 Derivative financial instruments (continued)

NZ Banking Group			
31 March 2009 – Unaudited			
	Notional \$m	Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	11,426	6	-
Forwards	5,179	2	(10)
Swaps	236,903	6,886	(6,419)
Options	3,224	59	(28)
Foreign exchange derivatives			
Forwards	29,901	830	(1,574)
Swaps	32,432	1,182	(1,664)
Total held for trading derivatives	319,065	8,965	(9,695)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	9,146	-	(564)
Total fair value hedging derivatives	9,146	-	(564)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	6,300	3	(445)
Total cash flow hedging derivatives	6,300	3	(445)
Total derivatives	334,511	8,968	(10,704)
NZ Banking Group			
30 September 2009 – Audited			
	Notional \$m	Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,491	9	-
Forwards	2,758	1	-
Swaps	211,487	4,393	(3,521)
Options	3,513	36	(24)
Foreign exchange derivatives			
Forwards	27,210	1,061	(1,668)
Swaps	23,076	805	(1,070)
Total held for trading derivatives	281,535	6,305	(6,283)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	10,061	18	(368)
Total fair value hedging derivatives	10,061	18	(368)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	5,980	5	(319)
Total cash flow hedging derivatives	5,980	5	(319)
Total derivatives	297,576	6,328	(6,970)

Notes to the financial statements

Note 28 Derivative financial instruments (continued)

	NZ Branch		
	31 March 2010 – Unaudited		
	Notional \$m	Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	15,930	6	(1)
Forwards	4,209	2	(1)
Swaps	221,952	3,861	(3,691)
Options	4,721	33	(22)
Foreign exchange derivatives			
Forwards	28,455	417	(699)
Swaps	27,790	254	(524)
Total held for trading derivatives	303,057	4,573	(4,938)
Total derivatives	303,057	4,573	(4,938)
	NZ Branch		
	31 March 2009 – Unaudited		
	Notional \$m	Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	11,426	6	-
Forwards	5,179	2	(10)
Swaps	251,773	6,865	(7,428)
Options	3,224	59	(28)
Foreign exchange derivatives			
Forwards	29,901	830	(1,574)
Swaps	32,432	1,182	(1,664)
Total held for trading derivatives	333,935	8,944	(10,704)
Total derivatives	333,935	8,944	(10,704)
	NZ Branch		
	30 September 2009 – Audited		
	Notional \$m	Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,491	9	-
Forwards	2,758	1	-
Swaps	227,004	4,394	(4,208)
Options	3,513	36	(24)
Foreign exchange derivatives			
Forwards	27,210	1,061	(1,668)
Swaps	23,076	805	(1,070)
Total held for trading derivatives	297,052	6,306	(6,970)
Total derivatives	297,052	6,306	(6,970)

Note 28 Derivative financial instruments (continued)

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

	NZ Banking Group							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	31 March 2010 – Unaudited		3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
			1 Year to 2 Years %	2 Years to 3 Years %				
Cash inflows (assets)	2	2	15	20	50	5	2	4
Cash outflows (liabilities)	4	4	22	22	40	4	2	2

	NZ Banking Group							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	31 March 2009 – Unaudited		3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
			1 Year to 2 Years %	2 Years to 3 Years %				
Cash inflows (assets)	7	4	24	25	21	12	2	5
Cash outflows (liabilities)	4	5	37	25	16	10	1	2

	NZ Banking Group							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	30 September 2009 – Audited		3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
			1 Year to 2 Years %	2 Years to 3 Years %				
Cash inflows (assets)	4	3	19	28	23	12	5	6
Cash outflows (liabilities)	4	4	33	27	17	9	3	3

For the six months ended 31 March 2010 no material loss was recognised due to hedge ineffectiveness on cash flow hedges (31 March 2009: \$1 million loss, 30 September 2009: nil) in the NZ Banking Group.

Note 29 Fair value of financial instruments

Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the NZ Banking Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

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

Certain short-term financial instruments

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

Floating rate financial instruments

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

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 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.

Exchange rate and interest rate contracts

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

Notes to the financial statements

Note 29 Fair value of financial instruments (continued)

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, repriced 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:

	NZ Banking Group and NZ Branch		
	31 March 2010 Unaudited	31 March 2009 Unaudited	30 September 2009 Audited
	%	%	%
Loans	3.80 - 10.30	4.24 - 10.14	3.88 - 9.51
Deposits	2.50 - 8.22	3.50 - 5.00	2.48 - 7.85
Debt issues	0.05 - 5.59	0.05 - 6.10	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 NZ Banking Group and the NZ Branch.

	NZ Banking Group							
	31 March 2010 – Unaudited							
	Classified at Fair Value through Profit or Loss		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
Held for Trading \$m	Designated upon Initial Recognition \$m							
Financial assets								
Cash and balances with central banks	-	-	-	1,067	-	-	1,067	1,067
Due from other financial institutions	-	-	-	21	-	-	21	21
Derivative financial instruments	4,534	-	57	-	-	-	4,591	4,591
Trading securities and other financial assets designated at fair value	6,798	-	-	-	-	-	6,798	6,798
Available-for-sale securities	-	-	-	-	56	-	56	56
Loans	-	-	-	56,215	-	-	56,215	56,366
Life insurance assets	-	132	-	-	-	-	132	132
Due from related entities	1,616	-	-	269	-	-	1,885	1,885
Other assets	-	-	-	207	-	-	207	207
Total financial assets	12,948	132	57	57,779	56	-	70,972	71,123
Financial liabilities								
Due to other financial institutions	-	-	-	-	-	597	597	597
Deposits at fair value	2,426	-	-	-	-	-	2,426	2,426
Deposits at amortised cost	-	-	-	-	-	34,508	34,508	34,574
Derivative financial instruments	4,350	-	588	-	-	-	4,938	4,938
Trading liabilities and other financial liabilities designated at fair value	330	-	-	-	-	-	330	330
Debt issues	-	8,278	-	-	-	8,532	16,810	17,266
Other liabilities	-	-	-	-	-	526	526	526
Subordinated debentures	-	-	-	-	-	796	796	796
Due to related entities	1,480	-	-	-	-	5,228	6,708	6,708
Total financial liabilities	8,586	8,278	588	-	-	50,187	67,639	68,161

Note 29 Fair value of financial instruments (continued)

NZ Banking Group								
31 March 2009 – Unaudited								
	Classified at Fair Value through Profit or Loss			Loans and Receivables \$m	Available- for-Sale Financial Assets \$m	Financial Liabilities at Amortised Cost \$m	Total Carrying Amount \$m	Estimated Fair Value \$m
	Held for Trading \$m	Designated upon Initial Recognition \$m	Hedging \$m					
Financial assets								
Cash and balances with central banks	-	-	-	1,258	-	-	1,258	1,258
Due from other financial institutions	-	-	-	3	-	-	3	3
Derivative financial instruments	8,965	-	3	-	-	-	8,968	8,968
Trading securities and other financial assets designated at fair value	7,491	-	-	-	-	-	7,491	7,491
Available-for-sale securities	-	-	-	-	38	-	38	38
Loans	-	-	-	55,730	-	-	55,730	56,363
Life insurance assets	-	95	-	-	-	-	95	95
Due from related entities	1,923	-	-	351	-	-	2,274	2,274
Other assets	-	-	-	923	-	-	923	923
Total financial assets	18,379	95	3	58,265	38	-	76,780	77,413
Financial liabilities								
Due to other financial institutions	-	-	-	-	-	239	239	239
Deposits at fair value	4,069	-	-	-	-	-	4,069	4,069
Deposits at amortised cost	-	-	-	-	-	32,726	32,726	32,809
Derivative financial instruments	9,695	-	1,009	-	-	-	10,704	10,704
Trading liabilities and other financial liabilities designated at fair value	2,751	-	-	-	-	-	2,751	2,751
Debt issues	-	9,739	-	-	-	1,753	11,492	11,533
Other liabilities	-	-	-	-	-	1,109	1,109	1,109
Subordinated debentures	-	-	-	-	-	1,032	1,032	1,032
Due to related entities	1,952	-	-	-	-	7,491	9,443	9,443
Total financial liabilities	18,467	9,739	1,009	-	-	44,350	73,565	73,689

NZ Banking Group								
30 September 2009 – Audited								
	Classified at Fair Value through Profit or Loss			Loans and Receivables \$m	Available- for-Sale Financial Assets \$m	Financial Liabilities at Amortised Cost \$m	Total Carrying Amount \$m	Estimated Fair Value \$m
	Held for Trading \$m	Designated upon Initial Recognition \$m	Hedging \$m					
Financial assets								
Cash and balances with central banks	-	-	-	798	-	-	798	798
Due from other financial institutions	-	-	-	843	-	-	843	843
Derivative financial instruments	6,305	-	23	-	-	-	6,328	6,328
Trading securities and other financial assets designated at fair value	5,405	-	-	-	-	-	5,405	5,405
Available-for-sale securities	-	-	-	-	37	-	37	37
Loans	-	-	-	55,592	-	-	55,592	55,975
Life insurance assets	-	113	-	-	-	-	113	113
Due from related entities	2,439	-	-	320	-	-	2,759	2,759
Other assets	-	-	-	498	-	-	498	498
Total financial assets	14,149	113	23	58,051	37	-	72,373	72,756
Financial liabilities								
Due to other financial institutions	-	-	-	-	-	485	485	485
Deposits at fair value	3,468	-	-	-	-	-	3,468	3,468
Deposits at amortised cost	-	-	-	-	-	32,944	32,944	32,994
Derivative financial instruments	6,283	-	687	-	-	-	6,970	6,970
Trading liabilities and other financial liabilities designated at fair value	2,698	-	-	-	-	-	2,698	2,698
Debt issues	-	6,082	-	-	-	6,287	12,369	12,540
Other liabilities	-	-	-	-	-	633	633	633
Subordinated debentures	-	-	-	-	-	790	790	790
Due to related entities	2,960	-	-	-	-	5,713	8,673	8,673
Total financial liabilities	15,409	6,082	687	-	-	46,852	69,030	69,251

Notes to the financial statements

Note 29 Fair value of financial instruments (continued)

	NZ Branch				
	31 March 2010 – Unaudited				
	Classified at Fair Value through Profit or Loss – Held for Trading \$m	Loans and Receivables \$m	Financial Liabilities at Amortised Cost \$m	Total Carrying Amount \$m	Estimated Fair Value \$m
Financial assets					
Cash and balances with central banks	-	825	-	825	825
Due from other financial institutions	-	18	-	18	18
Derivative financial instruments	4,573	-	-	4,573	4,573
Trading securities and other financial assets designated at fair value	2,188	-	-	2,188	2,188
Loans	-	6,897	-	6,897	6,909
Due from related entities	2,839	3,375	-	6,214	6,214
Other assets	-	46	-	46	46
Total financial assets	9,600	11,161	-	20,761	20,773
Financial liabilities					
Due to other financial institutions	-	-	597	597	597
Deposits at amortised cost	-	-	4,397	4,397	4,397
Derivative financial instruments	4,938	-	-	4,938	4,938
Trading liabilities and other financial liabilities designated at fair value	330	-	-	330	330
Other liabilities	-	-	52	52	52
Subordinated debentures	-	-	796	796	796
Due to related entities	1,613	-	5,184	6,797	6,797
Total financial liabilities	6,881	-	11,026	17,907	17,907

	NZ Branch				
	31 March 2009 – Unaudited				
	Classified at Fair Value through Profit or Loss – Held for Trading \$m	Loans and Receivables \$m	Financial Liabilities at Amortised Cost \$m	Total Carrying Amount \$m	Estimated Fair Value \$m
Financial assets					
Cash and balances with central banks	-	936	-	936	936
Derivative financial instruments	8,944	-	-	8,944	8,944
Trading securities and other financial assets designated at fair value	2,839	-	-	2,839	2,839
Loans	-	8,265	-	8,265	8,258
Due from related entities	3,618	4,099	-	7,717	7,717
Other assets	-	746	-	746	746
Total financial assets	15,401	14,046	-	29,447	29,440
Financial liabilities					
Due to other financial institutions	-	-	239	239	239
Deposits at amortised cost	-	-	4,106	4,106	4,106
Derivative financial instruments	10,704	-	-	10,704	10,704
Trading liabilities and other financial liabilities designated at fair value	455	-	-	455	455
Other liabilities	-	-	647	647	647
Subordinated debentures	-	-	1,032	1,032	1,032
Due to related entities	2,494	-	6,896	9,390	9,390
Total financial liabilities	13,653	-	12,920	26,573	26,573

Note 29 Fair value of financial instruments (continued)

	NZ Branch				
	30 September 2009 – Audited				
	Classified at Fair Value through Profit or Loss – Held for Trading \$m	Loans and Receivables \$m	Financial Liabilities at Amortised Cost \$m	Total Carrying Amount \$m	Estimated Fair Value \$m
Financial assets					
Cash and balances with central banks	-	584	-	584	584
Due from other financial institutions	-	841	-	841	841
Derivative financial instruments	6,306	-	-	6,306	6,306
Trading securities and other financial assets designated at fair value	984	-	-	984	984
Loans	-	7,583	-	7,583	7,583
Due from related entities	4,133	3,162	-	7,295	7,295
Other assets	-	357	-	357	357
Total financial assets	11,423	12,527	-	23,950	23,950
Financial liabilities					
Due to other financial institutions	-	-	485	485	485
Deposits at amortised cost	-	-	3,916	3,916	3,915
Derivative financial instruments	6,970	-	-	6,970	6,970
Trading liabilities and other financial liabilities designated at fair value	813	-	-	813	813
Other liabilities	-	-	122	122	122
Subordinated debentures	-	-	790	790	790
Due to related entities	2,999	-	4,957	7,956	7,956
Total financial liabilities	10,782	-	10,270	21,052	21,051

Determination of fair value

There are three primary methods of determining fair value according to the following hierarchy:

- **Quoted market price (Level 1)**

This valuation methodology 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.

- **Valuation technique using observable inputs (Level 2)**

Where quoted market prices are not available, inputs including quoted prices for similar assets and liabilities in active markets and other inputs that are observable for the asset or liability held are used in a widely accepted valuation model. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

- **Valuation technique with significant non-observable inputs (Level 3)**

Valuation techniques where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions at the balance sheet date. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. When the discount rate is set at a spread to the standard discount rate, the spread data may be unobservable. Default rates and recovery rates may be unobservable, depending on the frequency of trade in the markets. Future prepayment rates are considered unobservable.

As at 31 March 2010 there were no material amounts of financial assets and financial liabilities in the NZ Banking Group and the NZ Branch where the fair value has been derived using non-market observable inputs (31 March 2009: nil, 30 September 2009: nil).

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 the fair value information disclosed by other financial institutions.

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.

The fair values disclosed in this note represent estimates at which the instruments could be exchanged. However, the intention is to hold many of these instruments to maturity and thus it is possible that the realised amount may differ from the amounts disclosed in the tables below.

There were no material amounts of change in fair value, estimated using a valuation technique but incorporating significant non-observable inputs, that were recognised in the income statement during the six months ended 31 March 2010 in the NZ Banking Group and the NZ Branch (31 March 2009: nil, 30 September 2009: nil).

There have been no significant transfers between Levels 1 and 2 during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil). There have also been no significant transfers into/out of Level 3 during the six months ended 31 March 2010 (31 March 2009: nil, 30 September 2009: nil).

Notes to the financial statements

Note 29 Fair value of financial instruments (continued)

The table below summarises the basis for the determination of the fair value of financial instruments that are measured at fair value after initial recognition:

	NZ Banking Group 31 March 2010			NZ Branch 31 March 2010		
	Quoted Market Prices Unaudited \$m	Valuation Techniques (Market Observable) Unaudited \$m	Total Unaudited \$m	Quoted Market Prices Unaudited \$m	Valuation Techniques (Market Observable) Unaudited \$m	Total Unaudited \$m
Financial assets						
Derivative financial instruments	15	4,576	4,591	15	4,558	4,573
Trading securities and other financial assets designated at fair value	-	6,798	6,798	-	2,188	2,188
Available-for-sale securities	56	-	56	-	-	-
Life insurance assets	132	-	132	-	-	-
Due from related entities	11	1,605	1,616	11	2,828	2,839
Total financial assets carried at fair value	214	12,979	13,193	26	9,574	9,600
Financial liabilities						
Deposits at fair value	-	2,426	2,426	-	-	-
Derivative financial instruments	2	4,936	4,938	2	4,936	4,938
Trading liabilities and other financial liabilities designated at fair value	-	330	330	-	330	330
Debt issues at fair value	-	8,278	8,278	-	-	-
Due to related entities	4	1,476	1,480	4	1,609	1,613
Total financial liabilities carried at fair value	6	17,446	17,452	6	6,875	6,881
	NZ Banking Group 31 March 2009			NZ Branch 31 March 2009		
	Quoted Market Prices Unaudited \$m	Valuation Techniques (Market Observable) Unaudited \$m	Total Unaudited \$m	Quoted Market Prices Unaudited \$m	Valuation Techniques (Market Observable) Unaudited \$m	Total Unaudited \$m
Financial assets						
Derivative financial instruments	49	8,919	8,968	49	8,895	8,944
Trading securities and other financial assets designated at fair value	-	7,491	7,491	-	2,839	2,839
Available-for-sale securities	38	-	38	-	-	-
Life insurance assets	95	-	95	-	-	-
Due from related entities	8	1,915	1,923	8	3,610	3,618
Total financial assets carried at fair value	190	18,325	18,515	57	15,344	15,401
Financial liabilities						
Deposits at fair value	-	4,069	4,069	-	-	-
Derivative financial instruments	77	10,627	10,704	77	10,627	10,704
Trading liabilities and other financial liabilities designated at fair value	-	2,751	2,751	-	455	455
Debt issues at fair value	-	9,739	9,739	-	-	-
Due to related entities	80	1,872	1,952	80	2,414	2,494
Total financial liabilities carried at fair value	157	29,058	29,215	157	13,496	13,653

Note 29 Fair value of financial instruments (continued)

	NZ Banking Group			NZ Branch		
	30 September 2009			30 September 2009		
	Quoted Market Prices Audited \$m	Valuation Techniques (Market Observable) Audited \$m	Total Audited \$m	Quoted Market Prices Audited \$m	Valuation Techniques (Market Observable) Audited \$m	Total Audited \$m
Financial assets						
Derivative financial instruments	26	6,302	6,328	26	6,280	6,306
Trading securities and other financial assets designated at fair value	-	5,405	5,405	-	984	984
Available-for-sale securities	37	-	37	-	-	-
Life insurance assets	113	-	113	-	-	-
Due from related entities	29	2,410	2,439	29	4,104	4,133
Total financial assets carried at fair value	205	14,117	14,322	55	11,368	11,423
Financial liabilities						
Deposits at fair value	-	3,468	3,468	-	-	-
Derivative financial instruments	6	6,964	6,970	6	6,964	6,970
Trading liabilities and other financial liabilities designated at fair value	-	2,698	2,698	-	813	813
Debt issues at fair value	-	6,082	6,082	-	-	-
Due to related entities	9	2,951	2,960	9	2,990	2,999
Total financial liabilities carried at fair value	15	22,163	22,178	15	10,767	10,782

Note 30 Commitments and contingent liabilities

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Commitments for capital expenditure						
Due within one year	71	36	25	2	-	-
Other expenditure commitments:						
One year or less	61	64	62	-	-	-
Between one and five years	106	163	134	-	-	-
Over five years	4	4	4	-	-	-
Total other expenditure commitments	171	231	200	-	-	-
Lease commitments (all leases are classified as operating leases)						
Premises and sites	188	210	203	-	-	-
Motor vehicles	4	3	4	-	-	-
Total lease commitments	192	213	207	-	-	-
Lease commitments are due as follows:						
One year or less	37	21	39	-	-	-
Between one and five years	77	97	86	-	-	-
Over five years	78	95	82	-	-	-
Total lease commitments	192	213	207	-	-	-
Contingent liabilities and commitments						
Direct credit substitutes	310	313	331	267	259	285
Housing loan commitments with certain drawdown	143	147	208	-	-	-
Transaction related contingent items	663	765	649	410	488	370
Underwriting and sub-underwriting facilities	-	95	-	-	95	-
Short-term, self liquidating trade related contingent liabilities	718	815	740	74	81	62
Other commitments to provide financial services which have an original maturity of one year or more	8,932	9,612	9,884	3,023	3,217	3,381
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,854	6,523	6,134	2,381	2,492	2,157
Total contingent liabilities and commitments	17,620	18,270	17,946	6,155	6,632	6,255

Note 30 Commitments and contingent liabilities (continued)

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

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

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

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

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

The NZ Banking Group is obliged to repurchase securitised loans held by the Westpac Home Loan Trust ('HLT') where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform to the terms and conditions of the Westpac Securitisation Trust programme. It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from this obligation.

Other contingent liabilities

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

On 23 December 2009, the NZ Banking Group reached a settlement with the NZ Commissioner of Inland Revenue ('CIR') of the previously reported proceedings relating to nine structured finance transactions undertaken between 1998 and 2002. Under the settlement, the NZ Banking Group agreed to pay the CIR 80% of the full amount of primary tax and interest and with no imposition of penalties. All proceedings have been discontinued and the other terms of the settlement are subject to confidentiality. The NZ Banking Group provided in full for the primary tax and interest claimed by the CIR as part of its 2009 result, and consequently there has been a write back through income tax expense in the half year ended 31 March 2010.

Westpac New Zealand leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require Westpac New Zealand, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by Westpac New Zealand upon vacation of all leased premises subject to these provisions as at 31 March 2010 is estimated to be \$22 million (31 March 2009: \$22 million, 30 September 2009: \$22 million). No amount has been recognised as Westpac New Zealand believes it is highly unlikely that it would incur a material operating loss as a result of this in the normal course of its business operations.

Other commitments

As at 31 March 2010, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risk (please refer to Note 38). Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

Note 31 Segment information

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

The basis of segment reporting reflects the management of the business, rather than the legal structure of the NZ Banking Group. There is no difference in accounting measurement between management and legal structure. 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*, the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors that the NZ Banking Group operates in New Zealand. The NZ Banking Group does not rely on a major customer for its revenue basis.

The detailed definition of each segment is described below.

Operating segments

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

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

Note 31 Segment information (continued)

Retail Banking and Wealth Business have been aggregated and disclosed as the Consumer Banking operating segment.

Reconciling items primarily represent:

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

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

	NZ Banking Group				
	Six Months Ended 31 March 2010 – Unaudited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	Total \$m
Revenue from external customers ¹	864	1,628	309	(527)	2,274
Internal revenue	2	1	(2)	(1)	-
Total segment revenue	866	1,629	307	(528)	2,274
Net interest income	204	326	72	92	694
Non-interest income	42	134	73	30	279
Net operating income	246	460	145	122	973
Depreciation	-	(1)	-	(8)	(9)
Software amortisation costs	-	-	-	(20)	(20)
Other operating expenses	(32)	(100)	(27)	(187)	(346)
Total operating expenses	(32)	(101)	(27)	(215)	(375)
Impairment charges on loans	(74)	(122)	(5)	(19)	(220)
Profit/(loss) before income tax expense	140	237	113	(112)	378
Income tax expense	(42)	(68)	(29)	216	77
Profit after income tax expense	98	169	84	104	455
Profit after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	98	168	84	104	454
Non-controlling interests	-	1	-	-	1
	98	169	84	104	455
Total gross loans	20,944	29,232	7,098	(292)	56,982
Total deposits	9,320	20,654	4,044	2,916	36,934

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

Notes to the financial statements

Note 31 Segment information (continued)

	NZ Banking Group				
	Six Months Ended 31 March 2009 – Unaudited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	Total \$m
Revenue from external customers ¹	1,116	2,009	649	(845)	2,929
Internal revenue	3	1	(3)	(1)	-
Total segment revenue	1,119	2,010	646	(846)	2,929
Net interest income	223	342	65	141	771
Non-interest income	46	154	143	26	369
Net operating income	269	496	208	167	1,140
Depreciation	-	(1)	-	(9)	(10)
Software amortisation costs	-	-	-	(22)	(22)
Other operating expenses	(29)	(103)	(27)	(192)	(351)
Total operating expenses	(29)	(104)	(27)	(223)	(383)
Impairment charges on loans	(126)	(66)	(22)	(124)	(338)
Profit/(loss) before income tax expense	114	326	159	(180)	419
Income tax expense	(34)	(93)	(48)	(3)	(178)
Profit/(loss) after income tax expense	80	233	111	(183)	241
Profit/(loss) after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	80	231	111	(183)	239
Non-controlling interests	-	2	-	-	2
	80	233	111	(183)	241
Total gross loans	20,284	27,801	8,310	(60)	56,335
Total deposits	8,009	20,105	3,519	5,162	36,795

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

	NZ Banking Group				
	Year Ended 30 September 2009 – Audited				
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	Total \$m
Revenue from external customers ¹	1,983	3,688	884	(1,323)	5,232
Internal revenue	6	1	(5)	(2)	-
Total segment revenue	1,989	3,689	879	(1,325)	5,232
Net interest income	443	671	131	235	1,480
Non-interest income	90	308	214	(2)	610
Net operating income	533	979	345	233	2,090
Depreciation	-	(2)	-	(19)	(21)
Software amortisation costs	-	-	-	(45)	(45)
Other operating expenses	(60)	(205)	(61)	(416)	(742)
Total operating expenses	(60)	(207)	(61)	(480)	(808)
Impairment charges on loans	(446)	(134)	(71)	(39)	(690)
Profit/(loss) before income tax expense	27	638	213	(286)	592
Income tax expense	(8)	(183)	(63)	(832)	(1,086)
Profit/(loss) after income tax expense	19	455	150	(1,118)	(494)
Profit/(loss) after income tax expense attributable to:					
Head office account and owners of the NZ Banking Group	19	452	150	(1,118)	(497)
Non-controlling interests	-	3	-	-	3
	19	455	150	(1,118)	(494)
Total gross loans	20,293	28,236	7,732	(58)	56,203
Total deposits	8,738	20,109	3,791	3,774	36,412

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

Note 32 Superannuation commitments

The NZ 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 NZ 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 2009. 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 NZ Banking Group has no material obligations in respect of post-retirement benefits other than pensions.

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

	NZ Banking Group		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Benefit obligation at end of the period/year	93	104	96
Fair value of scheme assets at end of the period/year	84	65	76
Net recognised liability	9	39	20
Contribution tax	5	17	10
Net recognised liability including contribution tax	14	56	30
Movement in the net liability recognised in the balance sheet			
Opening liability with contribution tax	30	64	64
Superannuation expense with contribution tax	-	1	2
Employer contributions including contribution tax	(9)	(8)	(6)
Amount of gains recognised in equity with contribution tax	(7)	(1)	(30)
Closing liability with contribution tax	14	56	30
Superannuation expense recognised in the income statement:			
Current service cost	-	1	1
Interest cost	2	2	5
Expected return of fund assets	(2)	(2)	(5)
Net defined expense	-	1	1
Change in present value of defined benefit obligation:			
Benefit obligation at beginning of the period/year	96	117	117
Current service cost	-	1	1
Interest cost	2	2	5
Actuarial loss	(2)	(12)	(20)
Benefits paid	(3)	(4)	(8)
Exchange and other adjustments	-	-	1
Benefit obligation at end of the period/year	93	104	96
Change in fair value of scheme assets:			
Fair value of scheme assets at beginning of the period/year	76	74	74
Expected return on scheme assets	2	2	5
Employer contributions	6	4	5
Actuarial gain/(loss)	3	(11)	-
Benefits paid	(3)	(4)	(8)
Fair value of scheme assets at end of the period/year	84	65	76
Amounts recognised in equity			
Cumulative amount of loss recognised in equity at beginning of the period/year	-	20	20
Immediate recognition of loss/(gain)	5	-	(20)
Cumulative amount of loss recognised in equity at end of the period/year	5	20	-
Value of scheme assets			
Invested in Ultimate Parent Bank's debt and equity securities	7	7	6
Actual return on scheme assets	5	(9)	5
Expected employer contributions (net)	-	-	6

Note 32 Superannuation commitments (continued)

	NZ Banking Group		
	31 March 2010 Unaudited %	31 March 2009 Unaudited %	30 September 2009 Audited %
Primary actuarial assumptions used in the above calculations:			
Discount rate	4.3	4.0	4.0
Expected return on scheme assets – active members (end of period/year)	6.4	6.0	6.4
Expected return on scheme assets – pensioners	6.4	6.0	6.4
Rate of increase in salaries	2.0	2.0	2.0
Rate of increase for pensions	1.5	1.5	1.5
Asset allocation			
Cash	0.8	1.6	1.3
Equity instruments	58.4	52.4	57.9
Debt instruments	40.8	46.0	40.8
Total asset allocation	100.0	100.0	100.0

	NZ Banking Group				
	Six Months Ended 31 March 2010 Unaudited \$m	Year Ended 30 September 2009 Audited \$m	Year Ended 30 September 2008 Audited \$m	Year Ended 30 September 2007 Audited \$m	Year Ended 30 September 2006 Audited \$m
Historical summary					
Defined benefit scheme obligations	93	96	117	110	131
Scheme assets	84	76	74	99	113
Net deficit	9	20	43	11	18
Experience adjustments on scheme assets	2	-	(23)	2	8
Experience adjustments on scheme liabilities	3	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 33 Key management personnel disclosures

Key management personnel compensation

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

	NZ Banking Group		
	Six Months Ended 31 March 2010 Unaudited \$'000	Six Months Ended 31 March 2009 Unaudited \$'000	Year Ended 30 September 2009 Audited \$'000
Salaries and other short-term benefits	5,717	5,197	8,184
Post-employment benefits	586	496	747
Other termination benefits	349	-	-
Share-based payments	2,170	816	2,913
Total key management compensation	8,822	6,509	11,844

Where the Directors of the Overseas Bank have received remuneration from the NZ Banking Group the amounts are included above. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2009 Annual Financial Report.

Loans and deposits with key management personnel

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

As at 31 March 2010, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 March 2009: nil, 30 September 2009: nil).

Note 33 Key management disclosures (continued)

Other related party transactions

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

Note 34 Share-based payments

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

(i) Westpac Reward Plan

The WRP was approved by shareholders at the Overseas Bank's 2006 Annual General Meeting. It provides the Overseas Bank with a mechanism for driving 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 Overseas Bank. The comparator group for TSR focuses on 10 Australian financial sector peers. Full vesting of share rights occurs when the Overseas 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 NZ Banking Group employees, performance options with a three to five-year vesting period were granted under the WRP up 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 Overseas 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 Overseas 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 Overseas Banking 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.

WRP Performance options

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

Commencement Date	Latest Date for Exercise	Exercise Price A\$	Outstanding at Beginning of the Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
17 December 2007	17 December 2017	30.10	74,852	(13,473)	-	-	-	61,379	-
1 October 2008	1 October 2018	23.40	90,214	(16,642)	-	-	-	73,572	-
1 March 2009	1 March 2019	16.49	260,869	-	-	-	-	260,869	-
Totals for the period ended 31 March 2010			425,935	(30,115)	-	-	-	395,820	-
Weighted average exercise price (\$)			20.35	26.40	-	-	-	19.88	-
Totals for the period ended 31 March 2009			74,852	-	351,083	-	-	425,935	-
Weighted average exercise price (\$)			31.10	-	18.27	-	-	20.35	-
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 31 March 2010 was 8.7 years (31 March 2009: 9.7 years, 30 September 2009: 9.2 years).

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) excluding tax effects.

Note 34 Share-based payments (continued)

WRP Performance share rights

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

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
1 October 2009	1 October 2019	-	-	51,180	-	-	51,180	-
Totals for the period ended 31 March 2010		-	-	51,180	-	-	51,180	-
Totals for the period ended 31 March 2009		-	-	-	-	-	-	-
Totals for the year ended 30 September 2009		-	-	-	-	-	-	-

The weighted average fair value at the grant date of performance share rights issued during the period was \$15.31 per right (31 March 2009: nil, 30 September 2009: nil). The weighted average remaining contractual life of outstanding performance share rights at 31 March 2010 was 9.5 years (31 March 2009: nil years, 30 September 2009: nil years).

(ii) Westpac Performance Plan

For NZ 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 Overseas Bank. The exercise price for share rights is nil.

For NZ 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 Overseas 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 NZ 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 Overseas 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 Overseas 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 Overseas 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 Overseas Bank, specified resource companies and the first ranking group).

Full vesting of performance options and performance share rights occurs when the Overseas 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.

WPP Performance options

Commencement Date	Latest Date for Exercise	Exercise Price A\$	Outstanding at Beginning of the Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
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 period ended 31 March 2010			155,439	(21,349)	-	-	-	134,090	134,090
Weighted average exercise price (\$)			21.00	23.98	-	-	-	20.52	20.52
Totals for the period ended 31 March 2009			169,627	-	-	(1,198)	(2,956)	165,473	49,800
Weighted average exercise price (\$)			20.06	-	-	16.34	22.84	20.04	17.46
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 31 March 2010 was 5.5 years (31 March 2009: 6.5 years, 30 September 2009: 6.0 years).

Note 34 Share-based payments (continued)

WPP Performance share rights

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
20 January 2003	20 January 2013	22,596	-	-	(4,871)	-	17,725	17,725
21 January 2004	21 January 2014	45,483	-	-	(20,265)	-	25,218	25,218
20 January 2005	20 January 2015	40,095	-	-	(13,560)	-	26,535	26,535
20 December 2005	20 December 2015	69,098	-	-	(11,924)	-	57,174	55,508
15 December 2006	15 December 2016	4,333	-	-	-	-	4,333	4,333
Totals for the period ended 31 March 2010		181,605	-	-	(50,620)	-	130,985	129,319
Totals for the period ended 31 March 2009		335,698	-	-	(55,088)	(4,574)	276,036	181,605
Totals for the year ended 30 September 2009		335,698	-	-	(143,344)	(10,749)	181,605	181,605

The weighted average share price of performance share rights exercised during the period was \$26.15 per right (31 March 2009: \$17.55 per right, 30 September 2009: \$18.71 per right).

The weighted average remaining contractual life of outstanding performance share rights at 31 March 2010 was 4.8 years (31 March 2009: 5.8 years, 30 September 2009: 4.3 years).

WPP Unhurdled share rights

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

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
15 December 2006	15 December 2016	123,157	-	-	(40,235)	(838)	82,084	82,084
2 April 2007	2 April 2017	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	141,595	(2,309)	-	(7,849)	(4,014)	127,423	16,760
1 July 2008	1 July 2018	10,752	-	-	-	-	10,752	-
1 September 2008	1 September 2018	8,876	-	-	-	-	8,876	1,249
1 October 2008	1 October 2018	89,095	-	-	-	(1,545)	87,550	-
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	-	-	-	-	140,140	58,117
1 June 2009	1 June 2019	5,681	-	-	-	-	5,681	-
1 October 2009	1 October 2019	-	-	164,667	-	-	164,667	-
1 November 2009	1 November 2019	-	-	42,859	-	-	42,859	-
1 January 2010	1 January 2020	-	-	6,446	-	-	6,446	-
Totals for the period ended 31 March 2010		549,954	(2,309)	213,972	(57,794)	(6,397)	697,426	164,870
Totals for the period ended 31 March 2009		329,131	-	381,812	(9,948)	(2,806)	698,189	-
Totals for the year ended 30 September 2009		329,131	-	387,493	(10,532)	(156,138)	549,954	6,660

The weighted average fair value at the grant date of unhurdled share rights issued during the period was \$21.59 per right (31 March 2009: \$15.21 per right, 30 September 2009: \$16.68 per right). The weighted average share price of unhurdled share rights exercised during the period was \$23.81 per right (31 March 2009: \$17.55 per right, 30 September 2009: \$18.71 per right). The weighted average remaining contractual life of outstanding unhurdled share rights at 31 March 2010 was 8.5 years (31 March 2009: 7.5 years, 30 September 2009: 8.0 years).

(iii) Senior Officers' Share Purchase Scheme

The Senior Officers' Share Purchase Scheme ('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 Overseas 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.

Note 34 Share-based payments (continued)

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 Period	Transfers During the Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Outstanding Number of Options at End of the Period	Outstanding and Exercisable at End of the Period
8 January 2001	8 January 2011	13.26	45,000	-	-	-	-	45,000	45,000
9 January 2002	9 January 2012	14.65	50,000	-	-	-	-	50,000	50,000
Totals for the period ended 31 March 2010			95,000	-	-	-	-	95,000	95,000
Weighted average exercise price (\$)			13.99	-	-	-	-	13.99	13.99
Totals for the period ended 31 March 2009			95,000	-	-	-	-	95,000	95,000
Weighted average exercise price (\$)			13.99	-	-	-	-	13.99	13.99
Totals for the year ended 30 September 2009			95,000	-	-	-	-	95,000	95,000
Weighted average exercise price (\$)			13.99	-	-	-	-	13.99	13.99

The weighted average remaining contractual life of options at 31 March 2010 under the SOSPS was 1.3 years (31 March 2009: 2.3 years, 30 September 2009: 1.8 years).

Fair value at grant date

The fair value of performance share rights granted during the six months ended 31 March 2010, as 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 Overseas Bank's ordinary shares of 5% and a volatility in the Overseas 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 Overseas Bank's ordinary shares of 5% and a volatility in the Westpac ordinary share price of 30%;
- volatility has been assessed by considering the implied volatility of publicly traded options over the Overseas Bank's ordinary shares and the historic volatility of the market price of the Overseas Bank shares;
- other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and the Overseas 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 35 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 31 March 2010, the NZ Banking Group had securitised assets amounting to \$494 million (31 March 2009: \$573 million, 30 September 2009: \$523 million) all having been sold by the NZ Banking Group to external parties being 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 NZ Banking Group. 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 NZ Banking Group receives fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the NZ Banking Group as the risks and rewards of the assets have been substantially transferred to external parties.

In addition, the NZ Banking Group executed a \$5.0 billion internal mortgage-backed securitisation in October 2008, which increased to \$7.5 billion in December 2008. These securities are available for external issuance and the most senior rated securities (\$7.25 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank. Reflecting the underlying movement in loan balances in the facility, the NZ Banking Group 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 NZ Banking Group 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.

In addition to its own scheme, the NZ Banking Group provides financial services, on an arm's length basis, to customers' securitisation schemes.

Funds management and other fiduciary activities

The NZ Banking Group conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the NZ Banking Group and accordingly are not included in these financial statements, with the exception of Term PIE.

Term PIE is managed by a member of the NZ Banking Group (refer to Note 27 for further details) and invests in deposits guaranteed under the New Zealand deposit guarantee scheme with Westpac New Zealand. Westpac New Zealand is considered to control Term PIE, and as such Term PIE is consolidated within the financial statements of the NZ Banking Group.

Note 35 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

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

	NZ Banking Group		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Private and priority	608	519	558
Retirement plans	726	458	615
Retail unit trusts	1,471	1,648	1,527
Wholesale unit trusts	122	95	108
Term PIE	239	-	17
Total funds under management	3,166	2,720	2,825

The value of assets in retail units described above includes the assets of HLT and the MIF.

Marketing and distribution of insurance products

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

Risk management

The NZ Banking Group's risk management framework (refer to Note 38) will minimise the possibility that any difficulties arising from the above activities would impact adversely on the NZ Banking Group.

Furthermore, during the six months ended 31 March 2010:

- financial services provided by any member of the NZ 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.

Note 36 Insurance business

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

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

	NZ Banking Group		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Total assets	135	98	117
As a percentage of total assets of the NZ Banking Group	0.19%	0.13%	0.16%

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

Note 37 Capital adequacy

	31 March 2010 Unaudited %	31 March 2009 Unaudited %
Overseas Banking Group¹		
Tier One Capital expressed as a percentage of risk-weighted exposures	8.6	8.4
Total Capital expressed as a percentage of risk-weighted exposures	10.8	11.4
Overseas Bank (Extended Licensed Entity)¹		
Tier One Capital expressed as a percentage of risk-weighted exposures	8.9	10.5
Total Capital expressed as a percentage of risk-weighted exposures	11.4	13.4

¹ The capital ratios represent information mandated by APRA.

Note 37 Capital adequacy (continued)

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

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) (as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2010. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

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

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

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

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

Note 38 Risk management

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

Westpac New Zealand, a member of the NZ Banking Group, is a locally incorporated registered bank. Westpac New Zealand's risk management framework is closely aligned with that of the Overseas Banking Group, however, the Board of Westpac New Zealand is responsible for the risk management of that bank and its subsidiaries. For further information on the risk management policies applying to Westpac New Zealand, refer to Westpac New Zealand's most recent General Disclosure Statement.

Risk management framework and governance

This Risk Management Framework is approved by the Board and implemented through the Chief Executive for Westpac New Zealand ('**NZ CEO**') and the executive management team.

The Overseas Bank has a Board Audit Committee ('**Group BAC**') and a Board Risk Management Committee ('**Group BRMC**'). The Group BAC and Group BRMC are Board committees that are responsible for setting the Overseas Banking Group's risk appetite and overseeing the Overseas Banking Group's risk profile.

The Group BAC comprises nine non-executive and independent Directors of the Overseas Bank. The Group BAC 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.

The Group BRMC monitors the alignment of the Overseas Banking Group's risk profile with its risk appetite, which is defined by the Board Risk Appetite Statement, and with its current and future capital requirements. The Group BRMC receives regular reports from executive management on the effectiveness of their management of the Overseas Banking Group's material business risks.

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

Core risk principles

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

The principles for managing risk are:

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

Note 38 Risk management (continued)

Categories of risk

The key risks that the NZ Banking Group is subject to are specific banking risks and risks arising from the general business environment. The Risk Management Framework identifies four broad categories of risk:

- Credit risk: the risk of financial loss where a customer or counterparty fails to meet their financial obligations to the NZ Banking Group.
- Market risk: the risk to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
- Operational risk: the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk - the risk of legal or regulatory sanction, financial or reputation loss arising from the NZ Banking Group's failure to apply the regulatory standards expected of the NZ Banking Group as a financial services group.
- Liquidity risk: the risk that the NZ Banking Group will be unable to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Additional details surrounding the risk management activities relating to the management of these risks are disclosed below under the relevant headings.

Group Assurance

Group Assurance comprises the Group Audit, Portfolio Risk Review and Model Risk Review functions. Group Audit provides an independent assessment of the adequacy and effectiveness of management's controls over operational risk and compliance. Portfolio Risk Review provides an independent assessment of the quality of the NZ Banking Group's credit activities and portfolios, the quality of credit management practices and the adequacy of credit provisioning. Model Risk Review provides an independent check of models used in the Risk Rating system for compliance with Group model risk policy. Group Assurance assessments are provided to the Group BAC, Group BRMC and senior management by the Overseas Banking Group's Group Assurance unit.

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

Reviews in respect of risk management systems

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

The Overseas Bank's Group Assurance Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit and model risk. Group Audit NZ, with support from the Overseas Bank's Group Assurance unit, also periodically reviews the NZ Banking Group's Operational, Market, Funding and Liquidity Risk Frameworks. These reviews are not conducted by a party which is external to the NZ Banking Group or the Overseas Bank, though they are independent and have no direct authority over the activities of management.

With a view to continuously improving risk management, Westpac New Zealand also commissioned two external risk reviews that concluded during the six months ended 31 March 2010. The reviews were focused on risk governance and risk management practices. The findings of both reviews were considered by Westpac New Zealand's Board and by Westpac New Zealand's Executive Risk and Audit Committee ('ERAC'). Westpac New Zealand's risk framework has been improved and its risk management capability enhanced as a result of these reviews.

38.1 Compliance and operational risk

Compliance risk

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

Effective compliance risk management enables the NZ Banking Group to identify emerging issues and where necessary put in place preventative measures.

ERAC is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. ERAC meets quarterly, and is required to escalate material matters to Westpac New Zealand's Board Risk Management Committee ('BRMC') and the Overseas Bank's Group Operational Risk and Compliance Committee.

Operational risk

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

The NZ Banking Group has adopted the Overseas Bank's Operational Risk Framework. This Framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management, operational risk in change, reporting and monitoring, and operational risk capital allocation.

All business and support areas are responsible for the ongoing identification, measurement, monitoring and mitigation of operational risk. On a quarterly basis, as part of the operational risk and compliance governance process, each of the business and support areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from Operational Risk, Compliance and Group Audit. The results of this process are reported quarterly to the Overseas Bank's Group Operational Risk and Compliance Committee as well as Westpac New Zealand's ERAC chaired by the Westpac New Zealand Chief Risk Officer.

Note 38 Risk management (continued)

38.2 Funding and liquidity risk

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

Overall responsibility for liquidity risk management is delegated to the Overseas Banking Group's Treasury unit ('**Group Treasury**'), under oversight of the Overseas Banking Group's Asset and Liability Committee ('**Group ALCO**'). Group Treasury manages liquidity on a daily basis and submits monthly reports to Group ALCO and quarterly reports to the Group BRMC. Regular liquidity reports are provided to both the Reserve Bank and APRA. Westpac New Zealand's Chief Financial Officer is responsible for managing Westpac New Zealand's funding and liquidity position under Westpac New Zealand's Board Risk Committee approved liquidity risk framework.

Key aspects of the NZ Banking Group's liquidity risk management strategy are as follows:

Liquidity risk management framework

The Group BRMC has approved the liquidity risk management framework which applies to the NZ Banking Group. In addition, the Westpac New Zealand's Board Risk Committee has approved a liquidity risk management framework for Westpac New Zealand's balance sheet which is consistent with the Overseas Banking Group framework but also meets New Zealand specific requirements. The frameworks cover all aspects of liquidity risk including:

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

The frameworks are reviewed at least every two years and submitted to the appropriate committee for approval.

Daily liquidity modelling and reporting

The NZ Banking Group's liquidity position is modelled and reported on a daily basis covering:

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

With effect from 1 April 2010, Westpac New Zealand is required to comply with the quantitative measures specified in the Reserve Bank's 'Liquidity Policy' (BS13). Accordingly the following BS13 measures have been reported daily for Westpac New Zealand from 1 April 2010:

- the level of BS13 liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

Reports are circulated daily to senior Treasury, Finance and Risk personnel within both Westpac New Zealand and the Overseas Banking Group. Specific oversight of the NZ Banking Group's liquidity risk profile is provided by the NZ Branch's Trading Risk Management unit.

Annual funding plan

Each financial year Group Treasury undertakes a comprehensive review of the Overseas Banking Group's funding strategy. In addition, Westpac New Zealand's Treasury unit undertakes an annual review of Westpac New Zealand's funding strategy. These reviews cover areas such as:

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

The output of the reviews is the annual funding plans for the Overseas Banking Group and Westpac New Zealand. The funding plans are approved by the Group BRMC and Westpac New Zealand's Board Risk Management Committee respectively.

Note 38 Risk management (continued)

Contingency planning

Group Treasury maintains a crisis management action plan detailing the broad actions that should be taken in the event of a funding crisis affecting the Overseas Banking Group. Additionally, Westpac New Zealand's Treasury unit maintains a crisis management action plan specific to Westpac New Zealand. These action plans:

- define a committee of senior executives to manage a crisis;
- allocate responsibility to individuals for key tasks;
- include a media relations strategy;
- provide a contingent funding plan; and
- contain detailed contact lists outlining key regulatory, government, ratings agencies, equity and debt investor contact points.

Sources of liquidity

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

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

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

	NZ Banking Group		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Cash	828	1,076	402
Due from other financial institutions	-	-	499
NZ Government securities	2,693	2,588	2,482
NZ corporate securities	3,726	4,092	2,208
Residential mortgage-backed securities	6,092	4,028	4,278
Committed facilities from related entities	-	1,500	-
Total liquid assets	13,339	13,284	9,869

Note 38 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 balances in the tables below may not agree to the balance sheet as the tables incorporate all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

	NZ Banking Group						Total \$m
	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	1,067	-	-	-	-	-	1,067
Due from other financial institutions	21	-	-	-	-	-	21
Derivative financial instruments:							
Held for trading	4,126	408	-	-	-	-	4,534
Held for hedging purposes (net settled)	-	-	-	31	21	4	56
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	(14)	(804)	-	(818)
Cash inflow	-	-	-	9	751	-	760
Trading securities and other financial assets designated at fair value	747	799	4,295	989	-	-	6,830
Available-for-sale securities	-	-	-	56	-	-	56
Loans	2,649	2,201	5,816	6,290	23,455	52,668	93,079
Life insurance assets	109	22	-	-	1	-	132
Due from related entities:							
Non-derivative balances	269	-	-	-	-	-	269
Derivative financial instruments:							
Held for trading	884	732	-	-	-	-	1,616
Other assets	-	207	-	-	-	-	207
Total undiscounted financial assets	9,872	4,369	10,111	7,361	23,424	52,672	107,809
Liabilities							
Due to other financial institutions	328	56	86	112	19	-	601
Deposits at fair value	13	863	1,210	351	-	-	2,437
Deposits at amortised cost	16,560	3,259	7,204	6,791	1,319	1	35,134
Derivative financial instruments:							
Held for trading	3,652	697	-	-	-	-	4,349
Held for hedging purposes (net settled)	-	-	237	299	(1)	-	535
Held for hedging purposes (gross settled):							
Cash outflow	-	-	-	42	794	1,828	2,664
Cash inflow	-	-	-	(2)	(540)	(1,637)	(2,179)
Trading liabilities and other financial liabilities designated at fair value	330	-	-	-	-	-	330
Debt issues	-	1,915	2,008	4,781	7,971	1,657	18,332
Other liabilities	-	526	-	-	-	-	526
Subordinated debentures	-	-	-	-	-	796	796
Due to related entities:							
Non-derivative balances	2,176	-	22	119	2,761	1,066	6,144
Derivative financial instruments:							
Held for trading	1,026	454	-	-	-	-	1,480
Total undiscounted financial liabilities	24,085	7,770	10,767	12,493	12,323	3,711	71,149
Total contingent liabilities and commitments							
Housing loan commitments with certain drawdown	143	-	-	-	-	-	143
Other commitments to provide financial services which have an original maturity of one year or more	8,932	-	-	-	-	-	8,932
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,854	-	-	-	-	-	6,854
Total undiscounted contingent liabilities and commitments	15,929	-	-	-	-	-	15,929

Note 38 Risk management (continued)

	NZ Banking Group						Total \$m
	31 March 2009 – Unaudited						
	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	1,258	-	-	-	-	-	1,258
Due from other financial institutions	3	-	-	-	-	-	3
Derivative financial instruments:							
Held for trading	278	8,688	-	-	-	-	8,966
Held for hedging purposes (net settled)	-	-	-	(1)	1	4	4
Trading securities and other financial assets designated at fair value	1,530	1,939	2,848	1,207	-	-	7,524
Available-for-sale securities	-	-	-	-	38	-	38
Loans	3,012	2,269	5,159	7,008	24,532	56,206	98,186
Life insurance assets	68	27	-	-	-	-	95
Due from related entities:							
Non-derivative balances	351	-	-	-	-	-	351
Derivative financial instruments:							
Held for trading	8	1,915	-	-	-	-	1,923
Other assets	522	401	-	-	-	-	923
Total undiscounted financial assets	7,030	15,239	8,007	8,214	24,571	56,210	119,271
Liabilities							
Due to other financial institutions	226	5	4	4	-	-	239
Deposits at fair value	-	719	2,093	1,286	4	-	4,102
Deposits at amortised cost	17,645	3,824	5,437	4,997	1,442	2	33,347
Derivative financial instruments:							
Held for trading	881	8,814	-	-	-	-	9,695
Held for hedging purposes (net settled)	-	51	90	496	411	-	1,048
Trading liabilities and other financial liabilities designated at fair value	454	-	478	1,885	-	-	2,817
Debt issues	-	2,532	4,398	3,121	1,823	49	11,923
Other liabilities	-	1,109	-	-	-	-	1,109
Subordinated debentures	-	-	-	-	-	1,032	1,032
Due to related entities:							
Non-derivative balances	5,429	9	21	57	1,561	1,042	8,119
Derivative financial instruments:							
Held for trading	502	1,450	-	-	-	-	1,952
Total undiscounted financial liabilities	25,137	18,513	12,521	11,846	5,241	2,125	75,383
Total contingent liabilities and commitments							
Housing loan commitments with certain drawdown	147	-	-	-	-	-	147
Other commitments to provide financial services which have an original maturity of one year or more	9,612	-	-	-	-	-	9,612
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,523	-	-	-	-	-	6,523
Total undiscounted contingent liabilities and commitments	16,282	-	-	-	-	-	16,282

Certain comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the underlying liquidity data.

Notes to the financial statements

Note 38 Risk management (continued)

	NZ Banking Group						Total \$m
	Overnight \$m	Less Than 1 Month \$m	30 September 2009 – Audited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	798	-	-	-	-	-	798
Due from other financial institutions	843	-	-	-	-	-	843
Derivative financial instruments:							
Held for trading	5,261	1,044	-	-	-	-	6,305
Held for hedging purposes (net settled)	-	(8)	23	26	(23)	5	23
Trading securities and other financial assets designated at fair value	845	1,237	1,883	1,579	-	-	5,544
Available-for-sale securities	-	-	-	-	37	-	37
Loans	2,515	2,278	5,348	6,459	23,785	52,816	93,201
Life insurance assets	92	20	-	-	1	-	113
Due from related entities:							
Non-derivative balances	320	-	-	-	-	-	320
Derivative financial instruments:							
Held for trading	484	1,955	-	-	-	-	2,439
Other assets	1	497	-	-	-	-	498
Total undiscounted financial assets	11,159	7,023	7,254	8,064	23,800	52,821	110,121
Liabilities							
Due to other financial institutions	387	25	58	15	-	-	485
Deposits at fair value	70	1,286	1,805	319	4	-	3,484
Deposits at amortised cost	16,256	2,453	6,066	7,113	1,649	2	33,539
Derivative financial instruments:							
Held for trading	4,622	1,662	-	-	-	-	6,284
Held for hedging purposes (net settled)	-	65	63	372	209	(1)	708
Trading liabilities and other financial liabilities designated at fair value	814	254	1,639	-	-	-	2,707
Debt issues	-	1,819	2,976	2,322	6,340	52	13,509
Other liabilities	-	633	-	-	-	-	633
Subordinated debentures	-	-	-	-	-	790	790
Due to related entities:							
Non-derivative balances	2,715	-	30	110	2,854	1,037	6,746
Derivative financial instruments:							
Held for trading	1,603	1,357	-	-	-	-	2,960
Total undiscounted financial liabilities	26,467	9,554	12,637	10,251	11,056	1,880	71,845
Total contingent liabilities and commitments							
Housing loan commitments with certain drawdown	208	-	-	-	-	-	208
Other commitments to provide financial services which have an original maturity of one year or more	9,884	-	-	-	-	-	9,884
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,134	-	-	-	-	-	6,134
Total undiscounted contingent liabilities and commitments	16,226	-	-	-	-	-	16,226

Certain comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the underlying liquidity data.

Note 38 Risk management (continued)

	NZ Branch						
	Overnight \$m	Less Than 1 Month \$m	31 March Over 1 Month to 3 Months \$m	2010 – Unaudited Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	Total \$m
Assets							
Cash and balances with central banks	825	-	-	-	-	-	825
Due from other financial institutions	18	-	-	-	-	-	18
Derivative financial instruments:							
Held for trading	4,165	408	-	-	-	-	4,573
Trading securities and other financial assets designated at fair value	747	-	1,450	-	-	-	2,197
Loans	362	314	735	1,830	4,126	201	7,568
Due from related entities:							
Non-derivative balances	3,375	-	-	-	-	-	3,375
Derivative financial instruments:							
Held for trading	2,107	732	-	-	-	-	2,839
Other assets	-	46	-	-	-	-	46
Total undiscounted financial assets	11,599	1,500	2,185	1,830	4,126	201	21,441
Liabilities							
Due to other financial institutions	328	56	86	112	19	-	601
Deposits at amortised cost	1,924	1,661	674	159	2	1	4,421
Derivative financial instruments:							
Held for trading	4,241	697	-	-	-	-	4,938
Trading liabilities and other financial liabilities designated at fair value	330	-	-	-	-	-	330
Other liabilities	-	52	-	-	-	-	52
Subordinated debentures	-	-	-	-	-	796	796
Due to related entities:							
Non-derivative balances	5,184	-	-	-	-	-	5,184
Derivative financial instruments:							
Held for trading	1,159	454	-	-	-	-	1,613
Total undiscounted financial liabilities	13,166	2,920	760	271	21	797	17,935
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,023	-	-	-	-	-	3,023
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,381	-	-	-	-	-	2,381
Total undiscounted contingent liabilities and commitments	5,404	-	-	-	-	-	5,404

Notes to the financial statements

Note 38 Risk management (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	31 March 2009 – Unaudited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	936	-	-	-	-	-	936
Due from other financial institutions	-	-	-	-	-	-	-
Derivative financial instruments:							
Held for trading	255	8,689	-	-	-	-	8,944
Trading securities and other financial assets designated at fair value	1,030	530	1,100	190	-	-	2,850
Loans	972	138	770	2,108	4,815	149	8,952
Due from related entities:							
Non-derivative balances	4,099	-	-	-	-	-	4,099
Derivative financial instruments:							
Held for trading	1,244	2,374	-	-	-	-	3,618
Other assets	510	236	-	-	-	-	746
Total undiscounted financial assets	9,046	11,967	1,870	2,298	4,815	149	30,145
Liabilities							
Due to other financial institutions	226	5	4	4	-	-	239
Deposits at amortised cost	2,516	1,140	311	133	34	1	4,135
Derivative financial instruments:							
Held for trading	1,891	8,813	-	-	-	-	10,704
Trading liabilities and other financial liabilities designated at fair value	455	-	-	-	-	-	455
Other liabilities	-	647	-	-	-	-	647
Subordinated debentures	-	-	-	-	-	1,032	1,032
Due to related entities:							
Non-derivative balances	5,972	9	8	21	185	1,042	7,237
Derivative financial instruments:							
Held for trading	807	1,687	-	-	-	-	2,494
Total undiscounted financial liabilities	11,867	12,301	323	158	219	2,075	26,943
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,217	-	-	-	-	-	3,217
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,492	-	-	-	-	-	2,492
Total undiscounted contingent liabilities and commitments	5,709	-	-	-	-	-	5,709

Certain comparative numbers for the NZ Branch have been restated as a result of continuing analysis of the underlying liquidity data.

Note 38 Risk management (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	30 September 2009 – Audited Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	584	-	-	-	-	-	584
Due from other financial institutions	841	-	-	-	-	-	841
Derivative financial instruments:							
Held for trading	5,262	1,044	-	-	-	-	6,306
Trading securities and other financial assets designated at fair value	845	10	110	20	-	-	985
Loans	560	294	1,058	1,409	4,722	201	8,244
Due from related entities:							
Non-derivative balances	3,162	-	-	-	-	-	3,162
Derivative financial instruments:							
Held for trading	2,166	1,967	-	-	-	-	4,133
Other assets	-	357	-	-	-	-	357
Total undiscounted financial assets	13,420	3,672	1,168	1,429	4,722	201	24,612
Liabilities							
Due to other financial institutions	387	25	58	15	-	-	485
Deposits at amortised cost	1,912	994	693	329	14	1	3,943
Derivative financial instruments:							
Held for trading	5,308	1,662	-	-	-	-	6,970
Trading liabilities and other financial liabilities designated at fair value	813	-	-	-	-	-	813
Other liabilities	-	122	-	-	-	-	122
Subordinated debentures	-	-	-	-	-	790	790
Due to related entities:							
Non-derivative balances	4,027	8	8	33	241	1,037	5,354
Derivative financial instruments	1,631	1,368	-	-	-	-	2,999
Total undiscounted financial liabilities	14,078	4,179	759	377	255	1,828	21,476
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,381	-	-	-	-	-	3,381
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,157	-	-	-	-	-	2,157
Total undiscounted contingent liabilities and commitments	5,538	-	-	-	-	-	5,538

Note 38 Risk management (continued)

38.3 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 NZ Banking Group. It arises from the NZ Banking Group's lending, interbank, treasury and international trade activities.

Credit risk management

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

In applying its Control Principles of Credit, the NZ Banking Group recognises and reflects two approaches to managing credit risk based on the nature of the customer and product:

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

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

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

All business units produce regular delinquency reports that detail excesses and arrears 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 Overseas Bank ('**Overseas Bank Group Risk**'). Compliance with these policies is administered locally.

Overseas Bank Group Risk establishes and maintains group-wide credit risk management framework, policies and risk concentration limits which incorporate sound credit risk management practices, reflect approved risk appetite and strategy and meet relevant regulatory and legislative obligations. Within these boundaries, the NZ Banking Group has its own credit approval limits as delegated by the Overseas Bank Group Credit Risk Officer. These establish a hierarchy of credit approval levels, aligned to customer risk grades and consistent with normal customer exposures in the business.

Internal credit risk ratings system

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

The NZ Banking Group's internal credit risk rating system for transaction-managed customers is based on the Overseas Banking Group's internal credit risk rating system and 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 NZ Banking Group to use the rating agencies' long-run default history to calculate long-run average PDs.

Note 38 Risk management (continued)

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

NZ 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
NZ 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 NZ 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 Group BRMC.

To ensure the credit risk rating system is applied consistently across the NZ Banking Group, the Overseas Banking Group's Portfolio Risk Review team independently evaluates the portfolio performance and the adherence to credit risk policies, procedures and reporting across Business Units. The assessment involves reviewing the accuracy of risk grades, delinquency profile, actual loss performance, the quality of management information available and the adequacy of provisioning.

Specific credit risk estimates (including PD, LGD and EAD levels) are overseen and approved by a subcommittee of the Overseas Banking Group Credit Risk Committee.

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 NZ 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 NZ 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 NZ 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 are 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 lower graded customers. 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.

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

Note 38 Risk management (continued)

Regulatory capital

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

Overview of internal credit risk ratings process, by portfolio

(a) Transaction-managed approach (including corporate, sovereign, banking, business lending and specialised lending)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgement decision-making process is employed to evaluate the CRG.

The following represent the types of corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

- direct lending;
- contingent lending;
- pre-settlement;
- foreign currency settlement; and
- other intraday settlement obligations.

All of the above exposure categories also apply to Specialised Lending, which in the NZ Banking Group comprises Property Finance (Income Producing Real Estate).

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

(i) Probability of Default ('PD')

The PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. The NZ Banking Group reflects its PD estimate in a CRG.

(ii) Loss Given Default ('LGD')

The LGD represents an estimate of the expected severity of a loss to the NZ Banking Group should a customer default occur during an economic downturn. The NZ 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 NZ Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposure in the customer's 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 ('EAD') and Credit Conversion Factor ('CCF')

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

(b) Retail (program-managed) 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.

Retail asset classes exposures included in the retail (program-managed) portfolio approach are split into the following categories of products:

Asset sub-classes	Product categories
Residential mortgages	<ul style="list-style-type: none"> ■ Mortgages
Small business	<ul style="list-style-type: none"> ■ Equipment finance ■ Business overdrafts ■ Business term loans ■ Business credit cards
Other retail	<ul style="list-style-type: none"> ■ Credit cards ■ Personal loans ■ Overdrafts

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

(i) Probability of Default

PDs are assigned at the 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. Models are used to help determine or establish the appropriate internal rating for program-managed portfolios.

Note 38 Risk management (continued)

(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.

(c) **Reconciling financial statement and regulatory capital disclosures**

Within Note 13 the financial statement category 'Loans for business purposes' includes all transaction-managed asset classes and small business asset class. 'Residential mortgages' per Note 13 are defined consistently for financial statement and regulatory capital disclosure purposes. 'Other loans for consumer purposes' in Note 13 are classified as 'Other retail' for regulatory capital disclosure purposes.

Credit risk mitigation and limit control

The NZ Banking Group achieves credit risk mitigation through either risk reduction or risk transfer:

Risk reduction

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

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

Risk transfer

The NZ Banking Group transfers credit risk exposure to a customer to an unrelated entity by:

- credit substitution (use of guarantees and standby Letters of Credit, or similar instruments) where the NZ Banking Group has direct recourse to a third party on default or non-payment by the customer; or
- credit protection bought via credit default swaps where the NZ Banking Group is entitled to recover either full principal or credit losses on occurrence of defined credit events.

The credit risk of the mitigation provider may not in any way directly or indirectly relate to the customer.

Collateral valuation and management

The NZ Banking Group uses a qualitative scale to record the quality of the security taken. This is referred to as the security quality index ('SQI'). The SQI is applied in determining the LGD.

The NZ Banking Group revalues all financial markets and associated collateral positions on a daily basis to monitor the net risk position, and has formal processes in place to ensure calls for collateral top-up or exposure reduction are made promptly. The Collateral Management unit and the Financial Markets Credit Risk team have responsibility for monitoring those positions. Collateral securing direct and contingent credit exposures is monitored and revalued less frequently by the originating business unit.

Types of collateral taken

The NZ Banking Group recognises the following as eligible collateral for credit risk mitigation by way of risk reduction:

- cash;
- deposits;
- securities issued by other entities with a minimum risk grade equivalent of A3/A-; and
- credit-linked notes, provided the proceeds are invested in cash or other eligible collateral described above.

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

Guarantor/credit derivative counterparties

For credit risk mitigation by risk transfer, the NZ Banking Group only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities provided they are not related to the underlying obligor:

- sovereign entities, public sector entities, banks or securities firms; and
- other entities with a minimum risk grade equivalent of A3/A-.

Market and/or credit risk concentrations

All exposures to risk transfer counterparties are separately approved under the NZ Banking Group's usual credit approval process with the amount and tenor of mitigation recorded against the counterparty in the NZ Banking Group's exposure management systems. The credit quality of mitigation providers is reviewed regularly in accordance with the NZ Banking Group's usual periodic review processes.

Market risks arising from credit risk mitigation activities are managed similarly to market risks arising from any other trading activities. These risks are managed under either the market risk banking book or trading book frameworks as appropriate.

The banking book is managed by credit limits to restrict credit exposure. Net interest positions are managed within the banking book market risk framework by Value at Risk ('VaR') and structural risk limits. The structural risk limits restrict the size of market risk exposures that can be taken on any part of the yield curve.

Note 38 Risk management (continued)

In the trading book market risk flowing from credit risk mitigation deals is combined with the underlying market risk and assessed against structural (and VaR) risk limits. The structural risk limits include volume, basis point, 'greeks' and other limits to avoid undue concentration of market risk. These are set and overseen by the independent market risk management unit. The structural risk limits are set taking into account business strategy, trader experience and market liquidity.

Foreign exchange and derivative credit risk management

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

Maximum exposure to credit risk

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Financial assets						
Cash and balances with central bank	1,067	1,258	798	825	936	584
Due from other financial institutions	21	3	843	18	-	841
Derivative financial instruments	4,591	8,968	6,328	4,573	8,944	6,306
Trading securities and other financial assets designated at fair value	6,798	7,491	5,405	2,188	2,839	984
Available for sale securities	56	38	37	-	-	-
Loans	56,215	55,730	55,592	6,897	8,265	7,583
Life insurance assets	132	95	113	-	-	-
Due from related entities	1,885	2,274	2,759	6,214	7,717	7,295
Other assets	207	923	498	46	746	357
Total financial assets	70,972	76,780	72,373	20,761	29,447	23,950
Contingent liabilities						
Direct credit substitutes	310	313	331	267	259	285
Housing loan commitments with certain drawdown	143	147	208	-	-	-
Transaction related contingent items	663	765	649	410	488	370
Underwriting and sub-underwriting facilities	-	95	-	-	95	-
Short term, self-liquidating trade related contingent liabilities	718	815	740	74	81	62
Other commitments to provide financial services which have an original maturity of one year or more	8,932	9,612	9,884	3,023	3,217	3,381
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,854	6,523	6,134	2,381	2,492	2,157
Total contingent liabilities and commitments	17,620	18,270	17,946	6,155	6,632	6,255
Total maximum credit risk exposure	88,592	95,050	90,319	26,916	36,079	30,205

Note 38 Risk management (continued)

Risk-weighted exposures

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

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

Securitised mortgages in non-consolidated entities are excluded from the balance sheet, but are included in the New Zealand risk-adjusted exposures as required by the Framework.

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

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

Calculation of on-balance sheet exposures

NZ Banking Group 31 March 2010 – Unaudited			
	Principal Amount \$m	Risk Weighting	Risk- weighted Exposure \$m
Cash and short-term claims on government	3,663	0%	-
Long-term claims on government	227	10%	23
Claims on banks	3,642	20%	728
Claims on public sector entities	279	20%	56
Residential mortgages	33,439	50%	16,720
Other assets	23,665	100%	23,665
Non-risk-weighted assets	7,244		
Total on-balance sheet exposures	72,159		41,192
Calculation of off-balance sheet securitised mortgage exposures			
Securitised mortgages	494	50%	247
Total off-balance sheet securitised mortgage exposures	494		247

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk- weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	310	100%	310	82%	254
Total direct credit substitutes	310		310		254
Commitments					
Housing loan commitments with certain drawdown	143	100%	143	50%	72
Transaction related contingent items	663	50%	331	91%	300
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Short-term, self liquidating trade related contingent liabilities	718	20%	144	100%	144
Other commitments to provide financial services which have an original maturity of one year or more	8,932	50%	4,466	69%	3,066
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,854	0%	-	0%	-
Total commitments	17,310		5,084		3,582
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	61,485		1,578	50%	789
Swaps	27,795		1,296	26%	331
Interest rate contracts:					
Forwards	4,209		2	50%	1
Futures	17,378		-	0%	-
Options	6,298		31	48%	15
Swaps	221,939		4,590	29%	1,323
Total market related contracts (derivatives)	339,104		7,497		2,459
Total off-balance sheet and derivative exposures	356,724		12,891		6,295
Total risk-weighted exposures					47,734

Note 38 Risk management (continued)

Calculation of on-balance sheet exposures

	NZ Branch 31 March 2010 – Unaudited		
	Principal Amount \$m	Risk Weighting	Risk-weighted Exposure \$m
Cash and short-term claims on government	953	0%	-
Long-term claims on government	227	10%	23
Claims on banks	1,462	20%	292
Claims on public sector entities	124	20%	25
Residential mortgages	-	50%	-
Other assets	10,586	100%	10,586
Non-risk-weighted assets	7,522		
Total on-balance sheet exposures	20,874		10,926

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	-	50%	-
Total off-balance sheet securitised mortgage exposures	-		-

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk-weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	267	100%	267	80%	214
Total direct credit substitutes	267		267		214
Commitments					
Transaction related contingent items	410	50%	205	85%	174
Underwriting and sub-underwriting facilities	-	50%	-	100%	-
Short-term, self liquidating trade related contingent liabilities	74	20%	15	97%	14
Other commitments to provide financial services which have an original maturity of one year or more	3,023	50%	1,511	90%	1,360
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,381	0%	-	0%	-
Total commitments	5,888		1,731		1,548
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	61,485		1,578	50%	789
Swaps	42,711		1,813	24%	435
Interest rate contracts:					
Forwards	4,209		2	50%	1
Futures	17,378		-	0%	-
Options	6,298		31	48%	15
Swaps	248,187		4,671	29%	1,340
Total market related contracts (derivatives)	380,268		8,095		2,580
Total off-balance sheet and derivative exposures	386,423		10,093		4,342
Total risk-weighted exposures					15,268

Additional mortgage information

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

LVR range	NZ Banking Group Six Months Ended 31 March 2010 – Unaudited		
	0-80%	81-90%	Over 90%
Value of exposures (\$m)	25,356	4,996	3,264

Note 38 Risk management (continued)

38.4 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, commodity prices and equity prices. The NZ Banking Group's exposure to market risk arises out of its Financial Markets and Treasury activities.

Traded market risk

Approach

The NZ Banking Group's exposure to traded market risk arises out of its Financial Markets and Treasury trading activities. These activities are controlled by the Overseas Banking Group's market risk management framework approved by the Group BRMC. VaR is the primary mechanism for measuring and controlling market risk. Market risk is managed using VaR and structural risk limits (including volume limits and basis point value limits) in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based upon business strategies and experience, in addition to market liquidity and concentration risks. All trades are fair valued daily, using independently sourced or reviewed rates. Rates that have limited independent sources are reviewed at least on a monthly basis.

Financial Markets ('FM') trading book activity represents dealings that encompass book running and distribution activity. The types of market risk arising from FM trading activity include interest rate risk, foreign exchange risk, credit spread risk and volatility risk.

Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange and credit spread risks associated with the wholesale funding task, liquid asset portfolios and foreign exchange repatriations.

VaR limits

Market risks arising from trading book activities are primarily measured using VaR based on historical simulation methodology. VaR is the potential loss in earnings from an adverse market movement calculated using a 99% confidence level, with a minimum of one year of historical rate data and a one-day time horizon. VaR takes account of all material market variables that may cause a change in the value of the trading portfolio, including interest rates, foreign exchange rates, price change, volatility and the correlations between these variables.

The Group BRMC has approved a VaR limit for the combined trading activities of the Overseas Banking Group's FM and Group Treasury units.

Backtesting

Daily backtesting of VaR results is performed to ensure model integrity is maintained. A review of both the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data.

Stress testing

Daily stress testing against pre-determined scenarios is performed to analyse potential losses beyond the 99% confidence level. An escalation framework around selective stress tests is approved by the Overseas Banking Group's Market Risk Committee ('Group MARCO').

Profit and loss notification framework

The Group BRMC has approved a profit and loss notification framework. Included in this framework are levels of escalation in accordance with the size of the profit or loss. Triggers are applied to both a 1-day and a rolling 20-day cumulative total.

Structure and organisation

An independent Market Risk Management unit ('Market Risk Management') is responsible for the daily measurement and monitoring of market risk exposures. This unit performs daily stress tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors. Stress tests include historical market movements, tests defined by one of the market risk committees or management and independent scenarios developed by the NZ Banking Group's economics department.

Risk reporting

Daily monitoring of current exposure and limit utilisation is conducted independently by Market Risk Management, which monitors market risk exposures against VaR and structural limits. Daily VaR position reports are produced by risk type, by product lines and by geographic region. These are supplemented by structural risk reporting, advice of profit and loss trigger levels and stress test escalation trigger points. Model accreditation has been granted by APRA for the use of the internal model approach for the determination of regulatory capital for the key classes of interest rate (general market), foreign exchange, commodity and equity (including specific risk) risks. Specific risk refers to the variations in individual security prices that cannot be explained by general market movements and event and default risk.

Risk mitigation

Market risk positions are managed by the trading desks consistent with delegated trading and product authorities. Risks are consolidated into portfolios based on product and risk type. Risk management is carried out by suitably qualified personnel with varying levels of seniority commensurate with the nature and scale of market risks under management.

The following controls allow for continuous monitoring of market risks by management:

- trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- a structured system of limits and reporting of exposures;
- all new products and significant product variations undergo a rigorous approval process to ensure business risks have been identified prior to launch;
- models that are used to determine risk or profit and loss for the NZ Banking Group's accounts are independently reviewed; and
- duties are segregated to ensure that employees involved in the origination, processing and valuation of transactions operate under separate reporting lines, minimising the opportunity for collusion.

Note 38 Risk management (continued)

Segregation of duties is a significant feature of the NZ Banking Group's internal controls. Separation of persons executing transactions from those responsible for processing contracts, confirming transactions, settling transactions, approving the accounting methodology or entries and performing revaluations minimises opportunities for fraud or embezzlement.

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, currency risk and funding and liquidity risk are inherent in these activities. Westpac New Zealand Treasury is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

Westpac New Zealand Treasury manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the NZ Banking Group's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('NII') over time. These activities are performed under the direction of Group MARCO with oversight from the NZ Branch's Trading Risk Management unit and conducted within a risk framework and appetite set down by the Group 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 NZ Banking Group'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 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.

Limits

The BRMC has approved NaR and VaR limits for banking book risk across the Overseas Banking Group. A NaR sub limit has been assigned to the NZ Banking Group 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.

Daily monitoring of current exposure and limit utilisation is conducted independently by the Overseas Banking Group's Market Risk Management unit, which monitors market risk exposures against VaR and NaR limits. Oversight of risk specific to the NZ Banking Group is monitored by the NZ Branch's Trading Risk Management unit. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the senior management market risk forums of Group MARCO and Group 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 NZ Banking Group's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow, fair value and net investment hedge approaches. Some derivatives held for economic hedging purposes do not meet the criteria for hedge accounting and therefore are accounted for in the same way as derivatives held for trading.

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

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach)' (BS2A). The peak end-of-day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 31 March 2010 (31 March 2009 for comparatives). The end-of-period exposures below have been calculated by determining the end-of-day aggregate market risk as at 31 March 2010 (31 March 2009 for comparatives), and then dividing that amount by the Overseas Banking Group's equity as at 31 March 2010 (31 March 2009 for comparatives).

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

For each category of market risk, the peak end-of-day notional capital charge as a percentage of the Overseas Banking Group's equity is the peak end-of-day notional capital charge for that category of market risk divided by the Overseas Banking Group's equity as at 31 March 2010 (31 March 2009 for comparatives).

Note 38 Risk management (continued)

Market risk notional capital charges

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at balance date and the peak end-of-day notional capital charges by risk type for the three months ended 31 March 2010:

	NZ Banking Group			31 March 2009 – Unaudited		
	31 March 2010 – Unaudited			31 March 2009 – Unaudited		
	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %
End-of-period						
Interest rate risk	2,475	198	0.42	4,713	377	0.85
Foreign exchange risk	14	1	0.00	75	6	0.01
Equity risk	56	4	0.01	38	3	0.01
Peak end-of-day						
Interest rate risk	5,438	435	0.92	5,538	443	1.00
Foreign exchange risk	70	6	0.01	75	6	0.01
Equity risk	56	4	0.01	38	3	0.01

VaR

The NZ 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 NZ 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 following table provides a summary of VaR by risk type for the NZ Banking Group and the NZ Branch's trading and non-trading activities.

Trading

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Interest rate risk	2.6	3.5	1.9	2.6	3.5	1.9
Foreign exchange risk	-	0.9	0.1	-	0.9	0.1
Price risk	0.1	-	0.1	0.1	-	0.1
Volatility risk	0.2	0.2	0.3	0.2	0.2	0.3
Net market risk	2.5	4.2	2.0	2.5	4.2	2.0

Non-trading

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Interest rate risk	1.1	3.8	1.3	2.3	0.4	1.6

Note 38 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 NZ Banking Group policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 31 March 2010. The NZ 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.

	NZ Banking Group									Total \$m
	31 March 2010 – Unaudited									
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	
Financial assets										
Cash and balances with central banks	827	-	-	-	-	-	-	-	240	1,067
Due from other financial institutions	3	-	-	-	-	-	-	-	18	21
Derivative financial instruments	-	-	-	-	-	-	-	-	4,591	4,591
Trading securities and other financial assets designated at fair value	1,121	4,293	984	7	6	85	32	270	-	6,798
Available-for-sale securities	-	-	-	-	-	-	-	-	56	56
Loans	24,902	8,334	11,036	7,719	3,299	889	694	109	(767)	56,215
Life insurance assets	27	-	-	-	-	-	-	-	105	132
Due from related entities	12	-	-	-	-	-	-	-	1,873	1,885
Other assets	-	-	-	-	-	-	-	-	207	207
Total financial assets	26,892	12,627	12,020	7,726	3,305	974	726	379	6,323	70,972
Non-financial assets										1,187
Total assets										72,159
Financial liabilities										
Due to other financial institutions	379	196	19	-	-	-	-	-	3	597
Deposits at fair value	875	1,204	347	-	-	-	-	-	-	2,426
Deposits at amortised cost	17,356	6,819	6,513	751	173	110	163	-	2,623	34,508
Derivative financial instruments	-	-	-	-	-	-	-	-	4,938	4,938
Trading liabilities and other financial liabilities designated at fair value	74	-	-	-	-	-	-	256	-	330
Debt issues	5,765	2,512	881	664	2,787	520	2,166	1,515	-	16,810
Other liabilities	-	-	-	-	-	-	-	-	526	526
Subordinated debentures	-	-	-	-	-	-	-	796	-	796
Due to related entities	4,845	-	48	-	-	-	-	-	1,815	6,708
Total financial liabilities	29,294	10,731	7,808	1,415	2,960	630	2,329	2,567	9,905	67,639
Non-financial liabilities										133
Total liabilities										67,772
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	3,074	3,038	(1,521)	(3,805)	(941)	(328)	543	(60)	-	-

Note 38 Risk management (continued)

	NZ Banking Group									
	31 March 2009 – Unaudited									
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m
Financial assets										
Cash and balances with central banks	1,076	-	-	-	-	-	-	-	182	1,258
Due from other financial institutions	3	-	-	-	-	-	-	-	-	3
Derivative financial instruments	-	-	-	-	-	-	-	-	8,968	8,968
Trading securities and other financial assets designated at fair value	2,652	3,211	1,209	1	18	21	77	302	-	7,491
Available-for-sale securities	-	-	-	-	-	-	-	-	38	38
Loans	24,437	9,086	8,090	8,084	3,661	1,943	710	324	(605)	55,730
Life insurance assets	17	-	-	-	-	-	-	-	78	95
Due from related entities	-	-	-	-	-	-	-	-	2,274	2,274
Other assets	521	-	-	-	-	-	-	-	402	923
Total financial assets	28,706	12,297	9,299	8,085	3,679	1,964	787	626	11,337	76,780
Non-financial assets										1,070
Total assets										77,850
Financial liabilities										
Due to other financial institutions	227	-	-	-	-	-	-	-	12	239
Deposits at fair value	717	2,079	1,269	4	-	-	-	-	-	4,069
Deposits at amortised cost	19,031	5,309	4,728	1,052	135	42	86	1	2,342	32,726
Derivative financial instruments	-	-	-	-	-	-	-	-	10,704	10,704
Trading liabilities and other financial liabilities designated at fair value	311	700	1,592	-	73	-	75	-	-	2,751
Debt issues	4,714	4,352	1,382	-	672	-	322	50	-	11,492
Other liabilities	-	-	-	-	-	-	-	-	1,109	1,109
Subordinated debentures	-	-	-	-	-	-	-	1,032	-	1,032
Due to related entities	6,929	-	61	-	48	-	-	-	2,405	9,443
Total financial liabilities	31,929	12,440	9,032	1,056	928	42	483	1,083	16,572	73,565
Non-financial liabilities										216
Total liabilities										73,781
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	5,760	4,273	(3,725)	(3,233)	(1,012)	(1,841)	(338)	116	-	-

Notes to the financial statements

Note 38 Risk management (continued)

	NZ Banking Group									
	30 September 2009 – Audited									
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m
Financial assets										
Cash and balances with central banks	402	-	-	-	-	-	-	-	396	798
Due from other financial institutions	502	-	-	-	-	-	-	-	341	843
Derivative financial instruments	-	-	-	-	-	-	-	-	6,328	6,328
Trading securities and other financial assets designated at fair value	1,281	2,269	1,287	-	139	78	2	349	-	5,405
Available-for-sale securities	-	-	-	-	-	-	-	-	37	37
Loans	23,568	7,820	10,606	7,460	4,340	1,202	1,096	111	(611)	55,592
Life insurance assets	23	-	-	-	-	-	-	-	90	113
Due from related entities	4	-	-	-	-	-	-	-	2,755	2,759
Other assets	-	-	-	-	-	-	-	-	498	498
Total financial assets	25,780	10,089	11,893	7,460	4,479	1,280	1,098	460	9,834	72,373
Non-financial assets										1,071
Total assets										73,444
Financial liabilities										
Due to other financial institutions	160	58	15	-	-	-	-	-	252	485
Deposits at fair value	1,354	1,796	314	4	-	-	-	-	-	3,468
Deposits at amortised cost	16,256	5,925	6,846	1,208	127	44	151	1	2,386	32,944
Derivative financial instruments	-	-	-	-	-	-	-	-	6,970	6,970
Trading liabilities and other financial liabilities designated at fair value	317	1,568	-	-	97	63	-	653	-	2,698
Debt issues	2,975	2,616	1,643	357	2,359	74	2,296	49	-	12,369
Other liabilities	-	-	-	-	-	-	-	-	633	633
Subordinated debentures	-	-	-	-	-	-	-	790	-	790
Due to related entities	5,151	8	61	-	48	-	-	-	3,405	8,673
Total financial liabilities	26,213	11,971	8,879	1,569	2,631	181	2,447	1,493	13,646	69,030
Non-financial liabilities										509
Total liabilities										69,539
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	4,138	3,908	(3,192)	(4,126)	(348)	(1,311)	1,001	(70)	-	-

Note 38 Risk management (continued)

	NZ Branch									
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	31 March 2010 – Unaudited				Over 5 Years \$m	Non-interest Bearing \$m	Total \$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				
Financial assets										
Cash and balances with central banks	758	-	-	-	-	-	-	-	67	825
Due from other financial institutions	-	-	-	-	-	-	-	-	18	18
Derivative financial instruments	-	-	-	-	-	-	-	-	4,573	4,573
Trading securities and other financial assets designated at fair value	326	1,462	-	7	6	85	32	270	-	2,188
Loans	3,632	3,104	131	63	49	6	3	4	(95)	6,897
Due from related entities	3,287	-	-	-	-	-	-	-	2,927	6,214
Other assets	-	-	-	-	-	-	-	-	46	46
Total financial assets	8,003	4,566	131	70	55	91	35	274	7,536	20,761
Non-financial assets										113
Total assets										20,874
Financial liabilities										
Due to other financial institutions	379	196	19	-	-	-	-	-	3	597
Deposits at amortised cost	3,544	592	154	-	-	-	1	-	106	4,397
Derivative financial instruments	-	-	-	-	-	-	-	-	4,938	4,938
Trading liabilities and other financial liabilities designated at fair value	74	-	-	-	-	-	-	256	-	330
Other liabilities	-	-	-	-	-	-	-	-	52	52
Subordinated debentures	-	-	-	-	-	-	-	796	-	796
Due to related entities	5,117	-	-	-	-	-	-	-	1,680	6,797
Total financial liabilities	9,114	788	173	-	-	-	1	1,052	6,779	17,907
Non-financial liabilities										66
Total liabilities										17,973
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	(1,025)	(6,053)	5,066	409	1,459	(223)	488	(121)	-	-

Notes to the financial statements

Note 38 Risk management (continued)

	NZ Branch									
	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
31 March 2009 – Unaudited										
Financial assets										
Cash and balances with central banks	888	-	-	-	-	-	-	-	48	936
Due from other financial institutions	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	8,944	8,944
Trading securities and other financial assets designated at fair value	745	1,472	203	1	18	21	77	302	-	2,839
Loans	4,155	3,690	21	29	111	78	41	186	(46)	8,265
Due from related entities	4,012	-	-	-	-	-	-	-	3,705	7,717
Other assets	521	-	-	-	-	-	-	-	225	746
Total financial assets	10,321	5,162	224	30	129	99	118	488	12,876	29,447
Non-financial assets										-
Total assets										29,447
Financial liabilities										
Due to other financial institutions	227	-	-	-	-	-	-	-	12	239
Deposits at amortised cost	3,569	283	111	26	-	-	-	1	116	4,106
Derivative financial instruments	-	-	-	-	-	-	-	-	10,704	10,704
Trading liabilities and other financial liabilities designated at fair value	279	-	28	-	73	-	75	-	-	455
Other liabilities	-	-	-	-	-	-	-	-	647	647
Subordinated debentures	-	-	-	-	-	-	-	1,032	-	1,032
Due to related entities	6,785	-	-	-	-	-	-	-	2,605	9,390
Total financial liabilities	10,860	283	139	26	73	-	75	1,033	14,084	26,573
Non-financial liabilities										23
Total liabilities										26,596
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	2,699	(2,773)	(1,392)	1,819	787	(591)	(463)	(86)	-	-

Note 38 Risk management (continued)

	NZ Branch									
	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	370	-	-	-	-	-	-	-	214	584
Due from other financial institutions	500	-	-	-	-	-	-	-	341	841
Derivative financial instruments	-	-	-	-	-	-	-	-	6,306	6,306
Trading securities and other financial assets designated at fair value	128	228	129	-	132	47	-	320	-	984
Loans	3,977	3,448	54	21	78	10	7	79	(91)	7,583
Due from related entities	3,135	-	-	-	-	-	-	-	4,160	7,295
Other assets	-	-	-	-	-	-	-	-	357	357
Total financial assets	8,110	3,676	183	21	210	57	7	399	11,287	23,950
Non-financial assets										40
Total assets										23,990
Financial liabilities										
Due to other financial institutions	160	58	15	-	-	-	-	-	252	485
Deposits at amortised cost	2,737	685	316	11	-	-	1	-	166	3,916
Derivative financial instruments	-	-	-	-	-	-	-	-	6,970	6,970
Trading liabilities and other financial liabilities designated at fair value	-	-	-	-	97	63	-	653	-	813
Other liabilities	-	-	-	-	-	-	-	-	122	122
Subordinated debentures	-	-	-	-	-	-	-	790	-	790
Due to related entities	4,733	-	-	-	-	-	-	-	3,223	7,956
Total financial liabilities	7,630	743	331	11	97	63	1	1,443	10,733	21,052
Non-financial liabilities										262
Total liabilities										21,314
Off-balance sheet financial instruments										
Net interest rate contracts (notional):										
Receivable/(payable)	1,490	(4,803)	954	(707)	2,577	(236)	796	(71)	-	-

Foreign currency exposures

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

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Receivable/(payable)						
Australian dollar	(4)	1	(2)	(4)	1	(2)
Euro	-	1	(1)	-	1	(1)
Great British pound	(1)	-	-	(1)	-	-
Japanese yen	(1)	2	-	(1)	2	-
United States dollar	(6)	(69)	(3)	(6)	(69)	(3)
Others	(1)	1	2	(1)	1	2

Notes to the financial statements

Note 39 Concentration of funding

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
Funding consists of						
Due to other financial institutions	597	239	485	597	239	485
Deposits at fair value	2,426	4,069	3,468	-	-	-
Deposits at amortised cost	34,508	32,726	32,944	4,397	4,106	3,916
Trading liabilities and other financial liabilities designated at fair value	330	2,751	2,698	330	455	813
Debt issues ¹	16,810	11,492	12,369	-	-	-
Subordinated debentures	796	1,032	790	796	1,032	790
Due to related entities	6,708	9,443	8,673	6,797	9,390	7,956
Total funding	62,175	61,752	61,427	12,917	15,222	13,960
Analysis of funding by product						
Savings accounts	5,681	6,773	5,829	21	9	7
Certificates of deposits	2,426	4,069	3,468	-	-	-
Demand deposits	5,980	6,916	5,916	1,911	2,465	1,805
Other deposits and borrowings	39,657	30,529	33,568	2,465	1,632	2,104
Securities short sold and under agreements to repurchase	330	2,751	2,698	330	455	813
Subordinated debentures	796	1,032	790	796	1,032	790
Subtotal	54,870	52,070	52,269	5,523	5,593	5,519
Due to other financial institutions	597	239	485	597	239	485
Due to related entities	6,708	9,443	8,673	6,797	9,390	7,956
Total funding	62,175	61,752	61,427	12,917	15,222	13,960
Analysis of funding by geographical areas¹						
New Zealand	36,847	37,161	37,654	7,123	5,755	6,102
Australia	7,735	10,808	9,894	4,827	8,314	6,937
United Kingdom	3,310	5,328	2,790	40	29	30
United States of America	7,891	4,474	6,139	815	1,046	804
Other	6,392	3,981	4,950	112	78	87
Total funding	62,175	61,752	61,427	12,917	15,222	13,960
Analysis of funding by industry and economic sector						
Accommodation, cafes and restaurants	140	131	110	34	22	18
Agriculture, forestry and fishing	1,729	1,350	1,388	576	111	180
Construction	419	491	442	89	120	98
Finance and insurance	25,575	23,038	24,457	3,429	3,232	3,543
Government, administration and defence	890	784	644	255	217	172
Manufacturing	852	798	816	253	235	241
Mining	45	23	24	2	1	2
Property	2,772	3,236	2,308	491	544	376
Services	3,071	3,118	3,317	457	560	696
Trade	913	920	862	192	196	210
Transport and storage	489	626	493	89	77	127
Utilities	449	327	334	180	173	144
Retail lending	16,960	16,767	16,769	-	-	-
Other	1,163	700	790	73	344	197
Subtotal	55,467	52,309	52,754	6,120	5,832	6,004
Due to related entities	6,708	9,443	8,673	6,797	9,390	7,956
Total funding	62,175	61,752	61,427	12,917	15,222	13,960

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

Note 40 Concentration of credit exposures

	NZ Banking Group			NZ Branch		
	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m	31 March 2010 Unaudited \$m	31 March 2009 Unaudited \$m	30 September 2009 Audited \$m
On-balance sheet credit exposures consists of						
Cash and balances with central banks	1,067	1,258	798	825	936	584
Due from other financial institutions	21	3	843	18	-	841
Derivative financial instruments	4,591	8,968	6,328	4,573	8,944	6,306
Trading securities and other financial assets designated at fair value	6,798	7,491	5,405	2,188	2,839	984
Available-for-sale securities	56	38	37	-	-	-
Loans	56,215	55,730	55,592	6,897	8,265	7,583
Life insurance assets	132	95	113	-	-	-
Due from related entities	1,885	2,274	2,759	6,214	7,717	7,295
Other assets	207	923	498	46	746	357
Total on-balance sheet credit exposures	70,972	76,780	72,373	20,761	29,447	23,950
Analysis of on-balance sheet credit exposures by geographical areas						
New Zealand	69,031	74,642	69,074	18,876	25,692	20,691
Australia	1,885	2,100	2,929	1,885	3,755	2,926
United Kingdom	-	-	333	-	-	333
United States of America	56	38	37	-	-	-
Total on-balance sheet credit exposures	70,972	76,780	72,373	20,761	29,447	23,950
Analysis of on-balance sheet credit exposures by industry and economic sector						
Accommodation, cafes and restaurants	589	517	580	1	1	3
Agriculture, forestry and fishing	6,077	5,722	5,936	448	571	564
Construction	1,353	1,306	1,385	68	48	4
Finance and insurance	10,633	16,033	13,035	7,241	11,963	9,752
Government, administration and defence	4,495	4,068	3,331	1,538	1,954	607
Manufacturing	2,299	2,600	2,263	802	1,038	859
Mining	422	275	323	351	224	264
Property	9,813	10,121	9,831	1,046	1,261	1,175
Property services and business services	1,800	1,880	1,790	349	518	420
Services	2,593	2,654	2,602	245	303	286
Trade	3,417	3,630	3,377	1,174	1,528	1,238
Transport and storage	1,364	1,395	1,372	637	748	686
Utilities	889	1,020	927	678	853	755
Retail lending	23,943	23,018	23,234	-	-	-
Other	108	169	149	52	112	67
Subtotal	69,795	74,408	70,135	14,630	21,122	16,680
Provisions for impairment on loans	(767)	(605)	(611)	(95)	(46)	(91)
Due from related entities	1,885	2,274	2,759	6,214	7,717	7,295
Other assets	59	703	90	12	654	66
Total on-balance sheet credit exposures	70,972	76,780	72,373	20,761	29,447	23,950
Off-balance sheet credit exposures						
Contingent liabilities and commitments	5,394	5,856	5,952	1,998	2,175	2,173
Total off-balance sheet credit exposures	5,394	5,856	5,952	1,998	2,175	2,173
Analysis of off-balance sheet credit exposures by industry and economic sector						
Accommodation, cafes and restaurants	25	31	32	7	11	8
Agriculture, forestry and fishing	131	149	198	57	62	58
Construction	300	200	288	129	100	99
Finance and insurance	152	278	260	129	159	221
Government, administration and defence	239	173	193	217	173	110
Manufacturing	371	360	445	275	258	291
Mining	83	149	128	79	146	122
Property services and business services	1,104	654	780	337	257	287
Trade	261	362	366	76	170	123
Transport and storage	126	138	205	116	104	166
Utilities	571	744	696	571	735	688
Retail lending	2,026	2,618	2,361	-	-	-
Other	5	-	-	5	-	-
Total off-balance sheet credit exposures	5,394	5,856	5,952	1,998	2,175	2,173

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

Comparative numbers for the NZ Banking Group and the NZ Branch's credit exposures by industry and economic sector have been restated as a result of continuing analysis of credit exposures data.

Note 40 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

- as at 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil).

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

- as at 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil); and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2010 was nil (31 March 2009: nil, 30 September 2009: nil).

The peak end-of-day exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at the end of the period. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of individually assessed provisions.

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

Auditors' review report



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Auditors' Review Report

To the Directors of Westpac Banking Corporation (the '**Directors**')

We have reviewed pages 11 to 97 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 8 and Clauses 19 and 20 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half-Year –Overseas Incorporated Registered Banks) Order 2008 (the '**Order**'). The financial statements provide information about the past financial performance and cash flows of Westpac Banking Corporation – New Zealand Branch (the '**NZ Branch**') and the aggregated results of Westpac Banking Corporation New Zealand Division (the '**NZ Banking Group**') for the six months ended 31 March 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 17 to 28 and the requirements of the Order.

The supplementary information contains information prepared in accordance with Schedules 4 to 8 and Clauses 19 and 20 of Schedule 3 of the Order.

This report is made solely to the Directors. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in a review 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 NZ Branch and the Directors, for our review procedures, for this report, or for the opinions we have formed.

Directors' Responsibilities

The NZ Banking Group financial statements are signed by the Responsible Person on behalf of the Directors of Westpac Banking Corporation. The Directors are responsible for the preparation and presentation of the General Disclosure Statement, which includes financial statements that give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 31 March 2010 and their financial performance and cash flows for the six months ended on that date and which are not false or misleading. The Directors are also responsible for including supplementary information in the General Disclosure Statement which complies with Schedules 3 to 8 of the Order.

Reviewers' Responsibilities

We are responsible for reviewing the financial statements and the supplementary information disclosed in accordance with Clause 23, Schedules 4 to 8, and Clauses 19 and 20 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in the balance sheet and Notes 35, 36, 37, 38.3, 38.4 and 40), we are responsible for reviewing these financial statements in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the financial statements do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 37, 38.3 and 38.4), 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 does not fairly state the matters to which it relates in accordance with Schedules 4 and 6 to 8 and Clauses 19 and 20 of Schedule 3 of the Order, and for reporting our findings to you.

Auditors' review report (continued)



Auditors' Review Report

To the Directors of Westpac Banking Corporation

In respect of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 37, 38.3, and 38.4, 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 Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and
- (ii) disclosed in accordance with Schedule 5 of the Order

and for reporting our findings to you.

Basis of Review Opinion

Our review has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of NZ Branch and NZ Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We carry out other assignments on behalf of the NZ Branch and the NZ 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 NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group. We have no other interests in the NZ Branch, the NZ Banking Group or Westpac Banking Corporation Group.

Review Opinion

We have examined the financial statements and the supplementary information disclosed in accordance with Clause 23, Schedules 4 to 8, and Clauses 19 and 20 of Schedule 3 of the Order.

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the financial statements (excluding the supplementary information in the balance sheet and Notes 35, 36, 37, 38.3, 38.4 and 40) do not present a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 31 March 2010 and their financial performance and cash flows for the six months ended on that date;
- (b) the supplementary information disclosed in the balance sheet and Notes 35, 36 and 40 prescribed by Schedules 4 and 6 to 8 and Clauses 19 and 20 of Schedule 3 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- (c) the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 37, 38.3 and 38.4, as required by Schedule 5 of the Order, is not in all material respects:
 - (i) prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and
 - (ii) disclosed in accordance with Schedule 5 of the Order.

Our work was completed on 11 June 2010 and our review opinion is expressed as at that date.

A handwritten signature in dark ink that reads 'PricewaterhouseCoopers'. The signature is written in a cursive, flowing style. Below the signature is a horizontal line that starts under the first letter and ends under the last letter, with a slight upward curve at the end.

Chartered Accountants

Auckland

