



# Westpac Banking Corporation's general **disclosure statement**



for the six months ended **31 March 2004**

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## General Information and Definitions

The information contained in this General Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand).

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

- Westpac Banking Corporation Group (otherwise referred to as the “**Overseas Banking Group**”) – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the “**Overseas Bank**”) – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the “**NZ Banking Group**”) – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group’s New Zealand business. The NZ Banking Group includes the following subsidiary entities:
  - Westpac Group Investment - NZ - Limited - Holding company
  - Westpac Holdings - NZ - Limited - Holding company
  - Augusta (1962) Limited and its subsidiary companies - Holding company
  - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
  - TBNZ Limited and its subsidiary companies - Holding company
  - The Home Mortgage Company Limited - Residential mortgage company
  - The Warehouse Financial Services Limited - Financial services company
  - Westpac Capital - NZ - Limited and its subsidiary companies - Holding company
  - Westpac Finance Limited - Finance company
  - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
  - Westpac (NZ) Investments Limited - Property owning and capital funding company
  - WestpacTrust Securities NZ Limited and its subsidiary company - Funding company
  - BLE Capital (NZ) Limited - Finance company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the “**NZ Bank**”) – refers to New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2003 and the six months ended 31 March 2004, respectively.

All amounts referred to in this General Disclosure Statement are in New Zealand dollars unless otherwise stated.

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## General Matters

### REGISTERED BANK

The Overseas Bank is entered on the register maintained under the Reserve Bank of New Zealand Act 1989. However, for the purposes of this General Disclosure Statement, the registered bank is the NZ Bank. The NZ Bank's head office is situated at, and the address for service is, Level 15, 188 Quay Street, Auckland, New Zealand.

### OVERSEAS BANK

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

The Overseas Bank's principal office is located at 60 Martin Place, Sydney, New South Wales 2000, Australia.

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## Registered Bank: Directorate and Advisers

### DIRECTORS

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

**Leonard Andrew Davis**, ASAIT, DSc (h.c.), FRACI, FAustIMM.  
Non-executive Director (Chairman)  
Australia

**Edward Alfred Evans**, AC, BEcon.  
Non-executive Director  
Australia

**David Raymond Morgan**, BEc, MSc, PhD.  
Managing Director & Chief Executive Officer  
Australia

**Carolyn Judith Hewson**, BEc (Hons), MA (Econ.).  
Non-executive Director  
Australia

**David Alexander Crawford**, BCom, LLB, FCA, FCPA.  
Non-executive Director  
Australia

**Helen Ann Lynch**, AM.  
Non-executive Director  
Australia

**The Hon. Sir Llewellyn Roy Edwards**, AC, MB, BS, FRACMA, LLD (h.c.), FAIM.  
Non-executive Director  
Australia

**Peter David Wilson**, CA.  
Appointed 31 October 2003  
Non-executive Director  
New Zealand

Further biographical information on the Directors of the Overseas Bank is contained in the Overseas Banking Group's 30 September 2003 Annual Financial Report.

### RESPONSIBLE PERSONS

The following person has been authorised by each Director in writing in accordance with section 82 of the Reserve Bank of New Zealand Act 1989 to sign this General Disclosure Statement on the Directors' behalf and is accordingly a responsible person under the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand):

**Ann Sherry** BA, GradDiplR, MAICD, FAIBF, FIPAA.  
Chief Executive Officer  
Westpac New Zealand  
Level 15  
PricewaterhouseCoopers Tower  
188 Quay Street  
Auckland, New Zealand

All communications may be sent to the Directors and the responsible person at the head office of the NZ Bank at 188 Quay Street, Auckland, New Zealand.

## **CONFLICT OF INTERESTS POLICY**

The Overseas Bank has a formal policy for avoiding or dealing with Directors' conflicts of interest, and such conflicts are also governed by the Overseas Bank's Constitution, the Corporations Act 2001 (Australia) and the Australian Prudential Regulation Authority's ("APRA") Prudential Statement No. B1 – Ownership and Control of Banks. Accordingly, each Director must:

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

## **INTERESTED TRANSACTIONS**

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director with the NZ Bank, or any member of the NZ Banking Group, other than on the NZ Bank's or the NZ Banking Group's normal terms and conditions in the ordinary course of business. No such transactions are reasonably likely to influence materially the exercise of the Directors' duties.

## **SOLICITORS**

Simpson Grierson  
HSBC Tower  
195 Lambton Quay  
Wellington, New Zealand

## **AUDITORS**

### **Overseas Banking Group**

PricewaterhouseCoopers

Address for service:  
201 Sussex Street  
Sydney, NSW 1171  
Australia

### **New Zealand Banking Group**

PricewaterhouseCoopers

Address for service:  
PricewaterhouseCoopers Tower  
188 Quay Street  
Auckland, New Zealand

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## Credit Ratings

The Overseas Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. There have been no changes to these credit ratings in the two preceding years. These credit ratings are given without any qualifications:

Rating Agency	Current Credit Rating
Standard & Poor's	<b>AA-</b>
Moody's Investors Service Inc.	<b>Aa3</b>
Fitch IBCA	<b>AA-</b>

### DESCRIPTIONS OF CREDIT RATING SCALES

	Standard & Poor's	Moody's Investors Service Inc.	Fitch IBCA
<b>The following grades display investment grade characteristics:</b>			
Extremely strong ability to repay principal and interest.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	<b>AA</b>	<b>Aa</b>	<b>AA</b>
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB

<b>The following grades have predominantly speculative characteristics:</b>			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC
Obligations currently in default.	D	-	C

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

**Bold** indicates the Overseas Bank's current approximate position within the Credit Rating Scales.

## Financial Statements of the Overseas Bank and the Overseas Banking Group

Copies of the NZ Bank's most recent Supplemental Disclosure Statement, which contains a copy of the most recent publicly available financial statements of the Overseas Bank and the Overseas Banking Group, are available immediately, free of charge, to any person requesting a copy where the request is made at the NZ Bank's head office, Level 15, 188 Quay Street, Auckland or are available within five working days of any request made at any branch, agency, or any other staffed premises primarily engaged in the business of the NZ Bank to which its customers have access in order to conduct banking business.

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group can also be accessed at the internet address [www.westpac.com.au](http://www.westpac.com.au).

## Historical Summary of Financial Statements

<b>NZ Banking Group</b>						
	<b>Six months ended 31 March 2004 Unaudited</b>	Year ended 30 September 2003 Audited	Year ended 30 September 2002 Audited	Year ended 30 September 2001 Audited	Year ended 30 September 2000 Audited	Year ended 30 September 1999 Audited
Note	\$m	\$m	\$m	\$m	\$m	\$m
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>						
Interest income	<b>1,245</b>	2,360	2,194	2,326	2,109	1,810
Interest expense	<b>(782)</b>	(1,525)	(1,353)	(1,501)	(1,301)	(1,005)
<b>Net interest income</b>	<b>463</b>	835	841	825	808	805
Non-interest income	(i) <b>368</b>	736	670	469	459	413
<b>Operating income</b>	<b>831</b>	1,571	1,511	1,294	1,267	1,218
Non-interest expenses	<b>(356)</b>	(699)	(685)	(639)	(656)	(687)
<b>Operating profit before bad and doubtful debts expense</b>	<b>475</b>	872	826	655	611	531
Bad and doubtful debts expense	(ii) <b>(18)</b>	(205)	(40)	(45)	(32)	(36)
<b>Operating profit before income tax expense</b>	<b>457</b>	667	786	610	579	495
Income tax expense	<b>(145)</b>	(203)	(168)	(131)	(144)	(163)
<b>Operating profit after income tax expense</b>	<b>312</b>	464	618	479	435	332
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	<b>(2)</b>	(2)	(4)	(14)	(26)	-
<b>Operating profit after income tax expense attributable to NZ Banking Group equity holders</b>	<b>310</b>	462	614	465	409	332
Remittance to the Overseas Bank	<b>(350)</b>	-	(200)	(67)	(40)	(200)
Dividends paid or provided for on ordinary share capital	-	(180)	(150)	(105)	(56)	(189)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	(27)	(41)	(71)	(59)	(51)
Dividends paid or provided for on convertible debentures (net of tax)	<b>(78)</b>	(64)	(33)	(33)	(34)	(7)
Dividends paid or provided for on NZ Class Shares	<b>(25)</b>	(44)	(44)	(19)	(55)	-
<b>Operating profit (released)/retained</b>	<b>(143)</b>	147	146	170	165	(115)
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets	<b>42,300</b>	39,945	37,458	38,178	35,017	29,555
Total impaired assets	<b>65</b>	71	92	146	151	128
Total liabilities	<b>37,466</b>	34,920	33,148	34,330	31,416	26,755
Equity	(iii) <b>4,834</b>	5,025	4,310	3,848	3,601	2,800

The amounts for the years ended 30 September have been extracted from the audited financial statements of the NZ Banking Group. Certain comparative figures have been restated to ensure consistent treatment with the current financial period.

- (i) The NZ Banking Group's non-interest income for the year ended 30 September 2002 included a gain on sale of the assets and liabilities of Australian Guarantee Corporation (N.Z.) Limited (now known as Augusta 1962 Limited). The total gain on sale was \$105 million, net of transactional and disposal costs.
- (ii) During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect of the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of \$178 million relating to its credit exposures.
- (iii) During the year ended 30 September 2003: (a) the NZ Bank issued \$1,994 million of convertible debentures (net of issue costs), \$715 million of which were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and \$1,279 million to JP Morgan Chase Bank as trustee of Tavarua Funding Trust 3; (b) the NZ Bank redeemed \$600 million of branch capital; and (c) the NZ Bank redeemed \$900 million of subordinated capital instruments issued to Westpac Overseas Funding Pty Limited.

During the year ended 30 September 2001: (a) Westpac Capital - NZ - Limited redeemed all of the \$400 million of subordinated capital instruments it had issued to Westpac Overseas Funding Pty Limited; and (b) the Overseas Bank made a capital contribution of \$600 million to the NZ Bank.

During the year ended 30 September 2000, a subsidiary of the NZ Banking Group, Westpac (NZ) Investments Limited, issued \$650 million of NZ Class Shares. A first instalment of \$7.20 per NZ Class Share was received on application and a final instalment of \$4.75 per NZ Class Share was received on 20 December 2000. During the year ended 30 September 1999, the NZ Bank issued \$586 million of convertible debentures (net of issue costs) to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust 1.

## Market Risk

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the eighth schedule (sub-clauses (1)(a), (8)(a) and (11)(a)) of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand).

The peak end-of-day exposure and as at exposures below have been calculated using the Overseas Banking Group's equity as at 31 March 2004 (31 March 2003 for comparatives).

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2004 Unaudited \$m	31 March 2004 Unaudited \$m	As at 31 March 2003 Unaudited \$m	31 March 2003 Unaudited \$m
Aggregate interest rate exposure	<b>136</b>	<b>190</b>	80	161
As a percentage of the Overseas Banking Group's equity	<b>0.75%</b>	<b>1.05%</b>	0.59%	1.20%
Aggregate foreign currency exposure	<b>1</b>	<b>6</b>	3	3
As a percentage of the Overseas Banking Group's equity	<b>0.01%</b>	<b>0.03%</b>	0.02%	0.03%

The NZ Banking Group has no material exposure to equity risk.

## Guarantee Arrangements

Certain material obligations of the Overseas Bank are subject to guarantees.

Westpac Capital - NZ - Limited and Westpac (NZ) Investments Limited (together the "NZ Bank guarantors") have each unconditionally guaranteed the due and punctual payment of the Overseas Bank's liabilities under debt securities offered to the public (the "NZ Bank guarantees") in respect of which a prospectus was required under the Securities Act 1978 (New Zealand).

From 1 July 1996, the NZ Bank was no longer required to issue prospectuses for debt securities under the Securities Act 1978 (New Zealand). Therefore, the NZ Bank guarantees do not relate to debt securities offered after 30 June 1996.

The NZ Bank guarantors both gave notice, on 30 September 1998 and 23 October 1998 respectively, that they were cancelling the NZ Bank guarantees which they gave on 28 September 1990. Cancellation became effective from 30 June 1999 and 23 July 1999, respectively for subsequently incurred liabilities. Liabilities existing as at these dates are still covered by the guarantees issued by the NZ Bank guarantors.

The NZ Bank guarantors' address for service is Level 15, 188 Quay Street, Auckland and both are members of the NZ Banking Group.

The liabilities of the NZ Bank guarantors in respect of the above guarantees are unlimited. There are no material conditions applying to any of the guarantees other than non-performance by the applicable guaranteed party. There are no material legislative or regulatory provisions which could subordinate claims under the guarantees to other claims on each of the guarantors.

The most recent audited financial statements of the NZ Bank guarantors are for the year ended 30 September 2003. There are no qualifications in the audit reports accompanying those financial statements. The net tangible assets of the guarantors, as shown by their most recent audited financial statements were as follows:

	30 September 2003 \$m	30 September 2002 \$m
Westpac Capital - NZ - Limited	<b>227</b>	200
Westpac (NZ) Investments Limited	<b>699</b>	696

There is no credit rating applicable to the NZ Bank guarantors' long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Copies of that part of the NZ Bank's most recent Supplemental Disclosure Statement, which contains a copy of the full guarantee contracts and the most recent financial statements of each of the guarantors, are available immediately, free of charge, to any person requesting a copy where the request is made at the NZ Bank's head office, Level 15, 188 Quay Street, Auckland or are available within five working days of any request made at any branch, agency, or any other staffed premises primarily engaged in the business of the NZ Bank to which its customers have access in order to conduct banking business.

The NZ Banking Group has guarantee arrangements in place in relation to structured finance transactions.



## Pending Proceedings or Arbitrations

There are no legal proceedings or arbitrations pending at the date of this General Disclosure Statement, which may have a material adverse effect on the NZ Bank or the NZ Banking Group. Contingent liabilities for the NZ Bank and the NZ Banking Group are disclosed in note 28 to the consolidated financial statements included in this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2003 Annual Financial Report and the 31 March 2004 interim financial report.

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## Local Incorporation

The Reserve Bank of New Zealand's ("Reserve Bank") policy is that all systemically important banks must incorporate as a local entity rather than operate via a branch. The NZ Bank is in regular contact with the Reserve Bank regarding the application of this policy to the NZ Bank. The NZ Bank is currently finalising a report to the Governor of the Reserve Bank on potential alternatives to local incorporation for the NZ Bank.

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## Conditions of Registration

The conditions of registration imposed on the NZ Bank are as follows:

1. That the NZ Banking Group does not conduct any non-financial activities that in aggregate is material, relative to its total activities.
2. That the NZ Banking Group's insurance business is not greater than 1% 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 (Rating and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
  - (ii) In measuring the size of the NZ Banking Group's insurance business:
    - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
      - the total consolidated assets of the Group headed by that entity;
      - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the Group headed by the latter entity;
    - (b) otherwise, the size of each insurance business conducted by any entity within the NZ Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
    - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the NZ Banking Group. All amounts in part (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 Bank does not constitute a predominant proportion of the business of the Overseas Banking Group.
4. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
5. That the Overseas Bank complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
  - Tier One Capital of the Overseas Banking Group is not less than four percent of risk weighted exposures;
  - Capital of the Overseas Banking Group is not less than eight percent of risk weighted exposures.

Further information on the capital adequacy of the Overseas Bank is contained in note 36 to the financial statements.

For the purposes of these conditions of registration, the term "NZ Banking Group" means the New Zealand operations of Westpac Banking Corporation and all those subsidiaries of Westpac Banking Corporation whose business is required to be reported in financial statements for the group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993 (New Zealand).

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## The Directors' Statement

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

- (a) the Disclosure Statement contains all information that is required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand); and
- (b) the Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank believes, after due enquiry, that, over the six months ended 31 March 2004:

- (a) the NZ Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989; and
- (b) the NZ Bank had systems in place to monitor and control adequately the NZ Banking Group's material risks, including its credit risk and concentration of it, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and those systems were being properly applied.

This Directors' Statement has been signed on behalf of the Directors by Ann Sherry who also signs in her personal capacity as Chief Executive Officer, Westpac New Zealand.



Dated this the 6th day of May 2004.

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# Consolidated Financial Statements

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## Statements of Financial Performance

For the six months ended 31 March 2004

	Note	NZ Banking Group			NZ Bank		
		Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
Interest income	3	<b>1,245</b>	1,196	2,360	<b>1,172</b>	1,154	2,217
Interest expense	3	<b>(782)</b>	(775)	(1,525)	<b>(830)</b>	(856)	(1,628)
<b>Net interest income</b>		<b>463</b>	421	835	<b>342</b>	298	589
Non-interest income	4	<b>368</b>	363	736	<b>326</b>	337	679
<b>Operating income</b>		<b>831</b>	784	1,571	<b>668</b>	635	1,268
Non-interest expenses	5	<b>(356)</b>	(331)	(699)	<b>(370)</b>	(351)	(727)
<b>Operating profit before bad and doubtful debts expense</b>		<b>475</b>	453	872	<b>298</b>	284	541
Bad and doubtful debts expense	6	<b>(18)</b>	(3)	(205)	<b>(16)</b>	(1)	(199)
<b>Operating profit before income tax expense</b>		<b>457</b>	450	667	<b>282</b>	283	342
Income tax expense	7	<b>(145)</b>	(141)	(203)	<b>(48)</b>	(94)	(42)
<b>Operating profit after income tax expense</b>		<b>312</b>	309	464	<b>234</b>	189	300
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		<b>(2)</b>	(1)	(2)	-	-	-
<b>Operating profit after income tax expense attributable to NZ Banking Group equity holders</b>		<b>310</b>	308	462	<b>234</b>	189	300

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.

## Statements of Movements in Equity

For the six months ended 31 March 2004

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>Balance at beginning of the period</b>	<b>5,025</b>	4,310	4,310	<b>3,062</b>	2,359	2,359
Operating profit after income tax expense attributable to NZ Banking Group equity holders	<b>310</b>	308	462	<b>234</b>	189	300
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	<b>2</b>	1	2	-	-	-
<b>Total recognised revenue and expenses</b>	<b>312</b>	309	464	<b>234</b>	189	300
Ordinary share capital:						
Issue of ordinary share capital	<b>50</b>	-	-	-	-	-
Dividends paid on ordinary share capital	-	(100)	(180)	-	-	-
Redemption of branch capital	-	-	(600)	-	-	(600)
Subordinated capital instruments: 24						
Redemption of subordinated capital instruments	-	-	(900)	-	-	(900)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	(22)	(27)	-	(22)	(27)
Convertible debentures: 25						
Issue of convertible debentures (net of issue costs)	-	715	1,994	-	715	1,994
Dividends paid or provided for on convertible debentures (net of tax)	<b>(78)</b>	(27)	(64)	<b>(78)</b>	(27)	(64)
Dividends paid on NZ Class Shares 27	<b>(25)</b>	(22)	(44)	-	-	-
Aggregation of new entities	-	-	80	-	-	-
Other minority interests	<b>(100)</b>	(8)	(8)	-	-	-
Remittance to the Overseas Bank	<b>(350)</b>	-	-	<b>(350)</b>	-	-
<b>Balance at end of the period</b>	<b>4,834</b>	5,155	5,025	<b>2,868</b>	3,214	3,062

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.

# Statements of Financial Position

As at 31 March 2004

	NZ Banking Group			NZ Bank			
	Note	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>ASSETS</b>							
Cash		107	124	103	107	114	103
Due from other financial institutions	9	1,261	122	1,006	1,260	120	1,003
Trading securities	10	1,246	1,952	1,329	1,246	1,952	1,329
Loans	11,12	34,959	32,744	33,361	30,077	27,361	28,050
Investment in related entities	14	-	-	-	1,777	1,777	1,777
Due from related entities	14	1,181	1,696	1,233	5,563	5,841	5,293
Property, plant and equipment	15	223	209	227	134	130	135
Intangible assets	16	587	644	611	496	535	516
Other assets	17	2,736	2,832	2,075	2,458	2,557	1,814
<b>Total assets</b>		<b>42,300</b>	40,323	39,945	<b>43,118</b>	40,387	40,020
Less:							
<b>LIABILITIES</b>							
Due to other financial institutions	18	467	1,115	201	467	1,115	201
Deposits	19	24,083	22,412	22,542	24,078	22,407	22,537
Bonds, notes and commercial paper	20	8,532	7,207	8,249	197	246	197
Due to related entities	14	780	1,525	702	12,009	10,629	10,910
Other liabilities	21	3,554	2,859	3,176	3,449	2,726	3,063
<b>Total liabilities excluding subordinated bonds</b>		<b>37,416</b>	35,118	34,870	<b>40,200</b>	37,123	36,908
Subordinated bonds	22	50	50	50	50	50	50
<b>Total liabilities</b>		<b>37,466</b>	35,168	34,920	<b>40,250</b>	37,173	36,958
<b>Net assets</b>		<b>4,834</b>	5,155	5,025	<b>2,868</b>	3,214	3,062
Represented by:							
<b>EQUITY</b>							
Ordinary share capital		132	2	82	-	-	-
Branch capital	23	-	600	-	-	600	-
Subordinated capital instruments	24	-	900	-	-	900	-
Convertible debentures	25	2,580	1,301	2,580	2,580	1,301	2,580
Property revaluation reserve	26	-	1	1	-	-	-
Retained earnings		860	993	1,004	288	413	482
<b>Total NZ Banking Group equity</b>		<b>3,572</b>	3,797	3,667	<b>2,868</b>	3,214	3,062
NZ Class Shares	27	598	598	598	-	-	-
Other minority interests		664	760	760	-	-	-
<b>Total equity</b>		<b>4,834</b>	5,155	5,025	<b>2,868</b>	3,214	3,062

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.

# Statements of Cash Flows

For the six months ended 31 March 2004

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Interest income received	1,230	1,114	2,361	1,189	1,139	2,246
Non-interest income received	282	318	691	240	291	594
(Increase)/decrease in trading securities and derivative financial instruments	(54)	(435)	1,304	(64)	(457)	1,174
Interest paid	(690)	(621)	(1,431)	(770)	(735)	(1,446)
Non-interest expenses paid	(382)	(252)	(513)	(417)	(294)	(757)
Income tax paid	(96)	(68)	(180)	(11)	(5)	(16)
<b>Net cash flows from operating activities</b>	<b>290</b>	<b>56</b>	<b>2,232</b>	<b>167</b>	<b>(61)</b>	<b>1,795</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Disposal of property, plant and equipment	1	6	11	-	5	9
Purchase of property, plant and equipment	(30)	(71)	(127)	(22)	(61)	(93)
Increase in loans	(1,714)	(1,376)	(2,194)	(2,043)	(1,971)	(2,859)
Acquisition of related entities (net of cash acquired)	-	(75)	(75)	-	-	-
Disposal of related entities	188	70	70	-	-	-
Movement in other assets	(124)	(10)	(82)	(22)	15	33
<b>Net cash flows from investing activities</b>	<b>(1,679)</b>	<b>(1,456)</b>	<b>(2,397)</b>	<b>(2,087)</b>	<b>(2,012)</b>	<b>(2,910)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
(Increase)/decrease in due from other financial institutions - term	(246)	720	(187)	(246)	721	(187)
Increase/(decrease) in due to other financial institutions - term	228	81	(20)	228	81	(20)
Increase in deposits	1,541	269	399	1,541	275	405
Increase/(decrease) in bonds, notes and commercial paper	283	(638)	405	-	87	38
Increase/(decrease) in amounts due to and due from related entities	4	(38)	(373)	830	(106)	711
(Decrease)/increase in other liabilities	(5)	(90)	-	10	(215)	-
Issue of ordinary share capital	50	-	-	-	-	-
Issue of convertible debentures (net of issue costs)	-	715	1,994	-	715	1,994
Redemption of subordinated capital instruments	-	-	(900)	-	-	(900)
Redemption of branch capital	-	-	(600)	-	-	(600)
Dividends paid on ordinary share capital	-	(100)	(180)	-	-	-
Dividends paid on subordinated capital instruments	-	(32)	(40)	-	(32)	(40)
Dividends paid on convertible debentures	(116)	(41)	(96)	(116)	(41)	(96)
Dividends paid on NZ Class Shares	(25)	(22)	(44)	-	-	-
Remittance to the Overseas Bank	(350)	-	-	(350)	-	-
<b>Net cash flows from financing activities</b>	<b>1,364</b>	<b>824</b>	<b>358</b>	<b>1,897</b>	<b>1,485</b>	<b>1,305</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>						
Cash and cash equivalents at beginning of the period	38	(155)	(155)	35	(155)	(155)
<b>Cash and cash equivalents at end of the period</b>	<b>13</b>	<b>(731)</b>	<b>38</b>	<b>12</b>	<b>(743)</b>	<b>35</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE</b>						
Cash	107	124	103	107	114	103
Due from other financial institutions - at call	86	101	77	85	99	74
Due to other financial institutions - at call	(180)	(956)	(142)	(180)	(956)	(142)
<b>Cash and cash equivalents at end of the period</b>	<b>13</b>	<b>(731)</b>	<b>38</b>	<b>12</b>	<b>(743)</b>	<b>35</b>

## Statements of Cash Flows continued

For the six months ended 31 March 2004

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX EXPENSE TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating profit after income tax expense attributable to NZ Banking Group equity holders	<b>310</b>	308	462	<b>234</b>	189	300
<b>Adjustments:</b>						
Amortisation of intangible assets	<b>24</b>	23	47	<b>20</b>	20	39
General provision establishment	-	-	178	-	-	178
Bad and doubtful debts expense	<b>18</b>	3	27	<b>16</b>	1	21
Depreciation/amortisation	<b>33</b>	29	62	<b>23</b>	20	43
Intragroup minority interests in subsidiary companies	<b>2</b>	1	2	-	-	-
Movement in accrued assets	<b>(42)</b>	(64)	87	<b>(10)</b>	(7)	113
Movement in accrued liabilities	<b>(47)</b>	64	(14)	<b>(85)</b>	33	(203)
Movement in income tax provisions	<b>50</b>	73	23	<b>37</b>	88	25
Movement in trading securities and derivative financial instruments	<b>(58)</b>	(381)	1,358	<b>(68)</b>	(405)	1,279
<b>Net cash flows from operating activities</b>	<b>290</b>	56	2,232	<b>167</b>	(61)	1,795

The following notes (numbered 1 to 39) form part of and should be read in conjunction with these financial statements.



# Notes to the Financial Statements

## NOTE 01 STATEMENT OF ACCOUNTING POLICIES

### GENERAL ACCOUNTING POLICIES

#### Statutory Base

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand), the Reserve Bank of New Zealand Act 1989, and all applicable financial reporting standards and other generally accepted accounting practices in New Zealand.

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

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

These financial statements were authorised for issue by the Board of Directors on 6 May 2004.

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#### Measurement Base

The financial statements are based on the general principles of historical cost accounting, as modified by the revaluation of certain assets. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand currency unless otherwise stated.

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#### Basis of Aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Bank, BLE Capital (NZ) Limited, and the consolidated capital and reserves of Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited and Westpac Financial Services Group - NZ - Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

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#### Comparative Figures

Certain comparative figures have been restated so as to enhance comparability with the current reporting period. In particular, as a result of ongoing analysis of derivative hedging transactions, re-classifications have been made between interest income and non-interest income in the statement of financial performance and between due from related parties and due to related parties in the statement of financial position for the current reporting period, and the comparatives have been restated accordingly.

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### PARTICULAR ACCOUNTING POLICIES

#### Bad and Doubtful Debts

Throughout each year appraisals of outstanding customer exposures (including both on and off-balance sheet commitments) are made and where they are considered doubtful, specific provisions are established by a charge against operating profit. All known bad debts are written off in the reporting period in which they are identified either against such specific provisions, or where specific provisions have not been established in respect of such bad debts, by a direct charge against operating profit.

A general provision is maintained to cover expected losses inherent in our existing overall loan portfolio that are not yet identifiable. In determining the level of general provision a statistical methodology called dynamic provisioning is employed. This methodology assists management in making estimates and judgement based on historical experience, business conditions, the composition of the portfolio, industry best practices and publicly available default data.

Further information on the general provision held by the NZ Bank and NZ Banking Group is available in note 6 to the financial statements.

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## Notes to the Financial Statements continued

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

#### Derivative Financial Instruments

Derivatives are bilateral contracts or payment exchange agreements whose value derives from the value of an underlying asset, reference rate or index. Derivative financial instruments include forwards, futures, options and swaps.

#### Trading

The positive or negative net fair values of trading derivative financial instruments are included in the statement of financial position under 'other financial markets assets' and 'other financial markets liabilities' respectively. Traded derivative financial instruments including forwards, futures, options, forward purchases and sales of securities, entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposure.

#### Hedging

Foreign exchange and interest rate forwards, futures, options entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the underlying hedged item. To qualify as a hedge, the swap, forward, futures or option position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated. Effectiveness of the hedge is evaluated on an initial and ongoing basis by comparing the correlation of the change in the market or fair value of the hedge with the change in value of the hedged item.

If a hedge contract is terminated early, any resulting gain or loss is deferred and amortised over the periods corresponding to the term of the hedged item. Where the hedged item ceases to exist, the corresponding derivative hedge contract is settled, re-designated or closed out and any resulting gains or losses are recorded in the statement of financial performance.

#### Fees

#### Fee Income

Application and activity fees are recognised when derived. Front end fees, if material, are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk. The balance of front end fees is considered to represent the recovery of costs and is taken to operating profit upon receipt. Credit card fees are recognised when charged to the customer's account.

#### Fee Expense

Significant loan origination fees are amortised on a straight-line basis over the estimated life of the loan. Other fees paid are expensed as incurred.

#### Foreign Currency

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

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

#### Funds Management and Trust Activities

The NZ Banking Group conducts investment management 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 are not included in these financial statements.

## Notes to the Financial Statements continued

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

#### Impaired Assets

Impaired assets consist of:

- Non-accrual assets, which are defined as assets in respect of which income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.
- 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.
- Real estate or other assets acquired through security enforcement or where the NZ Banking Group has assumed ownership of an asset in settlement of all or part of a debt.

Although not classified as impaired assets, assets that are in arrears for 90 or more consecutive days but are well-secured are reported separately. These are known as "past due assets".

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#### Interest

##### Interest Income

Interest income is brought to account on an accrual basis. Interest, including premiums and discounts, on trading and investment securities is brought to account on a yield to maturity basis. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against interest income. Such interest is known as "interest revenue forgone" and is calculated using an internal benchmark rate. Unpaid interest relating to prior financial reporting periods is either written off as a bad debt or specific provision.

##### Interest Expense

Interest expense is brought to account on an accrual basis.

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#### Intangible Assets

Intangible assets (comprising goodwill) are amortised against operating income on a straight-line basis over the periods in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of intangible assets is reviewed at least annually. If the carrying value of intangible assets exceeds the value of the expected future benefits, the difference is charged to the statement of financial performance.

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#### Leasing

Finance leases are accounted for using the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance. Finance leases are included in the statement of financial position as "loans".

Investments in leveraged lease and equity lease partnerships are included in the statement of financial position as "loans". Income recognition is based on a method which yields a constant rate of return on the outstanding lease investment.

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#### Life Insurance

##### Assets

Life insurance assets are recorded at market value. Gains and losses realised from the sale of life insurance assets and unrealised market value adjustments are included in the statement of financial performance.

##### Liabilities

Policyholder liabilities have been calculated using the Margin on Services methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*.

Provision has also been made for estimated liabilities in respect of claims notified, but not settled as at balance date, together with an allowance for incurred but not reported claims.

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## Notes to the Financial Statements continued

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

**Property, Plant and Equipment** Freehold land and buildings are carried at cost less accumulated depreciation. Write-downs to recoverable value are recognised as an expense in the statement of financial performance.

Depreciation of freehold buildings and freehold improvements is calculated on a straight-line basis at rates appropriate to their estimated useful lives, on average 40 years. The cost of improvements to leasehold premises is capitalised and amortised over the remaining term of the lease, but not exceeding seven years.

Furniture and fittings, motor vehicles and equipment are shown at cost less accumulated depreciation, which is calculated on a straight-line basis at rates appropriate to their estimated useful life, ranging from five to seven years.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Capitalised software is amortised over its expected life, which is usually three years. Costs incurred on computer software maintenance are expensed as incurred.

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#### **Redeemable Preference Share Finance**

The provision of finance to customers by way of redeemable preference shares is included in the statement of financial position as "loans". Dividend income recognition is based on a method which yields a constant rate of return on the outstanding balance and is included in the statement of financial performance as "interest income".

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#### **Repurchase Agreements and Short Sales of Securities**

Securities sold under agreements to repurchase are retained within the trading securities portfolios with a corresponding liability "securities sold under agreement to repurchase" established until the date of repurchase. Securities purchased under agreements to resell (reverse repurchase agreements) are included in the statement of financial position as "other assets". Short sales of securities are recorded in other liabilities as "securities sold short".

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#### **Securitisation**

The NZ Banking Group, through its loan securitisation program, packages and sells mortgage loans as securities to investors. In such transactions the NZ Banking Group receives fees for various services provided to the program on an arm's length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The NZ Banking Group also provides arm's length interest rate swaps and liquidity facilities to the program in accordance with Australian Prudential Regulation Authority Prudential Guidelines. In addition, the NZ Banking Group is entitled to receive residual income, comprising mortgage loan interest (net of swap payments) not due to investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swap and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income, are therefore, recognised when receivable or payable. The residual income is included in non-risk fee income and classified as profit on sale of loans when receivable.

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#### **Statement of Cash Flows**

##### **Basis of Presentation**

The statement of cash flows has been presented using the direct approach method (as required by the Institute of Chartered Accountants of New Zealand Financial Reporting Standard No. 10 *Statement of Cash Flows*) modified by the 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 unconditionally convertible at the investor's or customer's option within no more than two working days and include the inter-bank balances arising from the daily Reserve Bank of New Zealand settlement process.

##### **Netting of Cash Flows**

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

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## Notes to the Financial Statements continued

### NOTE 01 STATEMENT OF ACCOUNTING POLICIES continued

#### Superannuation Scheme

The NZ Banking Group's employee superannuation scheme uses the recognition and measurement criteria in International Accounting Standard (IAS) 19 *Employee Benefits*.

The actuarially assessed obligations of the NZ Banking Group's defined benefit employee superannuation scheme is recognised in the statement of financial position as "other assets", representing a prepayment of contributions to the scheme, or "other liabilities", representing any deficits to the scheme.

The superannuation cost for the defined benefit scheme is recognised in the statement of financial performance and comprises the current service cost, an interest cost and an expected return on plan assets. In addition, actuarial gains or losses which result from annual actuarial valuations, and which exceed the greater of 10% of the present value of the scheme obligations or, the fair value of assets, are recognised in the statement of financial performance on a straight-line basis over the expected remaining employees' service lives.

Superannuation costs for the defined contribution scheme are recognised in the statement of financial performance and comprise the contributions made by the NZ Banking Group.

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#### Taxation

Tax effect accounting has been adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent tax differences. The tax effect of timing differences, which occur where items are included or allowed for income tax purposes in a period different from that for accounting, is shown in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates. The liability method of inter-period allocation of income tax has been applied on a comprehensive basis.

Future income tax benefits have been recognised only where the realisation of such benefits in future periods is considered virtually certain.

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#### Trading Income

Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance.

Both realised and unrealised gains and losses on trading derivative contracts are included in the statement of financial performance.

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#### Trading Securities

Trading securities are short and long term public, bank or other debt securities and equities, which are held for resale in day-to-day trading operations. Trading securities are recorded at their net fair value, generally based on quoted market prices or dealer quotes.

Trading and investment securities are accounted for on a trade date basis. Amounts receivable for securities sold but not yet delivered are included in the statement of financial position under 'other assets'. Amounts payable for securities purchased but not yet delivered are included in the statement of financial position under 'other liabilities'.

Short trading positions are included in the statement of financial position under 'other liabilities'.

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#### CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the current reporting period. All accounting policies have been applied on a basis consistent with those used in the previous financial reporting periods.

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## Notes to the Financial Statements continued

### NOTE 02 RISK MANAGEMENT POLICIES

The NZ Banking Group's exposure to risk arises directly from its role as a financial intermediary and financial markets participant. These activities involve the acceptance of credit, market, liquidity and operational risk.

#### MANAGEMENT ASSURANCE PROGRAMME

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

This programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management and discussions with the General Manager, Risk Management and the Chief Executive for New Zealand, a member of the Group Executive of the Overseas Bank.

This system of management assurance permits the Directors of the Overseas Bank (the "Board") to be satisfied that the NZ Banking Group's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

The measurement and management of risk is central to the NZ Banking Group's total management processes that are discussed in the following sections.

#### CREDIT RISK

Credit risk is the potential risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the NZ Banking Group. It arises primarily from the NZ Banking Group's lending activities, as well as from transactions involving certain foreign exchange and derivative transactions.

For both on and off-balance sheet financial facilities, the NZ Banking Group takes collateral where it is considered necessary to mitigate credit risk. The NZ Banking Group evaluates each customer's credit risk on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. The collateral taken varies but could include cash deposits, receivables, inventory, plant and equipment, real estate and investments. Relationship managed facilities and product programs (for consumer exposures managed on an exception basis, such as housing and cards) are subject to regular review to reassess their risk profile and compliance with expected performance.

#### Credit Risk Management Principles

The NZ Banking Group's credit risk management principles set out the architecture and the core values by which the NZ Banking Group controls credit risk. This is a robust system of checks and balances, which ensures objectivity in credit approval decisions, and the control and integrity of the risk management process.

The NZ Banking Group's control environment ensures that common prudential standards and practices are applied across the NZ Banking Group in order to maintain the quality of the lending portfolio.

#### Credit Policies

Policies covering the broad areas of country risk, industry concentrations, large exposures and delinquency management are used as the principal means of governing exposures. Loan loss provisioning is based on objective statistical assessments known as dynamic provisioning, as discussed below.

#### Portfolio Management

The NZ Banking Group monitors its portfolio to guard against the development of risk concentrations. This process has ensured that the NZ Banking Group's credit risk remains very well diversified throughout the New Zealand economy.

Along with country and industry risk concentration limits and monitoring, the NZ Banking Group establishes separate reporting and prudential limits for borrowings that can be accessed by a single customer group. These limits apply to both borrowing equivalents and settlement risk. Separate limits apply to corporates, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the Board Credit and Market Risk Committee along with a strategy addressing the ongoing management of the excess.

#### Dynamic Provisioning for Loan Losses

The Overseas Bank determines the provisions to be held to cover worldwide bad and doubtful debts (including those of the NZ Banking Group), by utilising, as a guide, a statistical process called dynamic provisioning to ensure that appropriate provisions are maintained at all times.

## Notes to the Financial Statements continued

### NOTE 02 RISK MANAGEMENT POLICIES continued

Dynamic provisioning estimates the expected level of unidentified inherent credit losses from the loan portfolios. Statistical measures based on experience, supplemented by consideration of current market conditions, are used in estimating expected default rates and loss levels. Mass-market consumer loans, such as home loans and personal loans, are analysed by product portfolio. Loans to businesses are graded into different levels of risk, and the loss experience by each risk grade is determined.

The factors used in dynamic provisioning are constantly updated in the light of its evolving loss experience.

#### Foreign Exchange and Derivative Credit Risk Management

The credit policies for foreign exchange and derivative activities are the same as those governing traditional lending products. Credit limits for all trading activities are set for each customer and are based on the NZ Banking Group's assessment of the customer's credit standing. A real time global limits system records exposure against limits.

Foreign exchange and derivative contracts involve two distinct elements of credit risk: pre-settlement and settlement risk. Pre-settlement risk occurs when the counterparty to a transaction is unable to comply with the terms of the contract and the NZ Banking Group has to replace that contract at the current market value. Settlement risk occurs when the NZ Banking Group pays out funds before it receives payment from the counterparty in the transaction.

In assessing counterparty credit exposure on foreign exchange and derivative transactions for internal credit management purposes the NZ Banking Group considers both the current replacement costs and the potential future credit risk. Potential future credit risk is the estimated "worst case" potential increase in the replacement cost during the contract's life. This is calculated by employing a statistical methodology that uses historical price series and assumes a one standard deviation move for the relevant period of future price exposure. This provides an 84% confidence level that the 'worst case' estimates will not be exceeded at any time over the contract's life. The sum of the current replacement cost and the potential future credit risk is used to measure exposure against limits.

The risk of customer default is reduced by dealing with creditworthy counterparties. The NZ Banking Group's internal credit ratings definitions are similar to those of the external credit rating agencies such as Standard & Poor's and Moody's Investors Service Inc.

To reduce credit risk further, the NZ Banking Group enters into master netting agreements that provide for the offset of contracts with positive and negative market values in the event of default. Netting agreements provide protection from a counterparty selectively honouring only those contracts in its favour.

#### MARKET RISK

Market risk arises from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices and from changes in balance sheet structure in terms of liquidity and funding.

The NZ Bank segregates the management of market risk arising from trading activities and the market risks arising from other banking activities.

#### Trading Activities

Trading activities include the NZ Bank financial markets activities and are controlled by a framework of earnings at risk limits approved by the Board. At the Overseas Banking Group level, the Board has overall control of risk policies, methodologies and limits whilst the Board Trading and Market Risk Committee ensures that trading activities and new products are commensurate with the Overseas Banking Group's risk appetite. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate Trading Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures in conjunction with scenario and stress testing.

#### Value-at-Risk

The NZ Bank use Value-at-Risk ("VaR") as the primary mechanism for measuring and controlling market risk. VaR is an estimate of the potential loss of earnings, to a 99% confidence level, assuming positions were held unchanged for one day. A historical simulation method is used to calculate VaR taking into account all material market variables.

Actual outcomes are monitored and model assumptions are validated daily. Daily earnings at risk position reports are also produced by risk type and product. These are supplemented by structural reporting, i.e. volume and basis points value limits and advice of loss limits.

The trading risk management unit performs daily stress and regular scenario tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors.

## Notes to the Financial Statements continued

### NOTE 02 RISK MANAGEMENT POLICIES continued

#### OTHER BANKING ACTIVITIES

The Overseas Banking Group's Market Risk Committee ("Group MARCO") establishes policies regarding structural balance sheet interest rate risk, foreign exchange rate risk and liquidity risk. These risks arise principally from mismatches, which occur between the cash flows or repricing profiles of the various portfolios of loans, investments, deposits and other obligations.

#### STRUCTURAL INTEREST RATE RISK

The NZ Banking Group's Treasury Unit manages the sensitivity of NZ Banking Group's net interest income to changes in wholesale market interest rates. This sensitivity arises from lending and deposit taking activity in the normal course of business in and through the investment of capital and other non-interest bearing liabilities. The unit's risk management objective is to help ensure the reasonable stability of net interest income over time. These activities are performed under the direction of the NZ Bank's Asset and Liability Committee ("NZ ALCO") and the oversight of the Overseas Banking Group's Trading Risk Management unit.

Net interest income sensitivity is managed in terms of the net interest income at risk modelled over a three-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed covers all on and off-balance sheet accrual accounted assets and liabilities in New Zealand. It excludes the interest rate risk within the NZ Bank's trading operation that are managed under a VaR framework.

A simulation model is used to calculate the NZ Bank's potential net interest income at risk. The net interest income simulation framework combines the underlying statement of financial position data with:

- assumptions about run off and new business;
- expected repricing behaviour; and
- changes in wholesale market interest rates.

Simulations of a range of different interest rate scenarios are used to provide a series of potential future net interest income outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 basis point shifts up and down from the current official cash rates in New Zealand. A comparison between the net interest income outcomes from these modelled scenarios indicates the sensitivity to interest rate moves. Both on and off-balance sheet initiatives are then used to achieve stability in net interest income.

The net interest income simulation and limit frameworks established by Group MARCO are reviewed and approved annually by the Overseas Banking Group's Board Credit and Market Risk Committee. This ensures that the key inputs and risk parameters contained in the simulation model remain appropriate to the current and projected market environment and that net interest income at risk and the limits governing these activities remain consistent with overall risk and return parameters.

#### STRUCTURAL FOREIGN EXCHANGE RISK

Structural foreign exchange risk is managed on a Group basis. Where appropriate the limit framework and policy for the management of this exchange rate risk is set by Group MARCO and reviewed and approved annually by the Overseas Banking Group's Board Credit and Market Risk Committee.

Management of the risk may include the establishment of hedges, primarily in the form of forward foreign exchange transactions.

#### LIQUIDITY RISK

Liquidity risk is the risk that the NZ Banking Group will not have sufficient funds available to meet its cash flow obligations. The NZ Banking Group's liquidity policies are designed to ensure that it has sufficient funds available to meet these obligations, even in adverse circumstances. This includes advances to customers and repayment of maturing deposits and other liabilities, while raising deposits from a wide range of sources at acceptable cost.

Liquidity is controlled by monitoring and managing the current and future cash flows to contain the net cash outflow position during specified time intervals within acceptable parameters. The management process involves ensuring enough cash is available to maintain the business of the bank modelled using varying assumptions.

The liquidity policy framework is established by Group MARCO. The liquidity position is independently monitored to ensure there is no undue concentration or reliance upon funding from particular investor groups, geographies, tenor, type of instrument or currency and reported to NZ ALCO on a regular basis.

As at 31 March 2004, the NZ Banking Group held liquid assets of \$1,923 million (31 March 2003: \$1,169 million; 30 September 2003: \$1,918 million). For the purpose of this note, liquid assets are a pool of high quality assets (government securities and registered certificates of deposit issued by other banks) readily convertible to cash to meet the NZ Banking Group's liquidity requirements.



## Notes to the Financial Statements continued

### NOTE 02 RISK MANAGEMENT POLICIES continued

#### OPERATIONAL RISK

Operational risk is the potential exposure to financial, reputational or other damage arising from the way in which the NZ Banking Group pursues our business objectives.

Each business area is responsible for the development of a control framework and the monitoring of operational risk and active promotion of a strong risk management culture. On a quarterly basis, management of each business area formally reports on the effectiveness of their management of operational risk. This process is supported by active input from key corporate centre functions such as legal, finance, risk management, compliance and internal audit. The results of this process are reported to the Chief Executive for New Zealand.

The NZ Banking Group's control environment is enhanced by staff competency, development and supervision, together with management's philosophy and operating style. Corporate policy guidance ensures consistency in approach across business functions and distribution channels. A set of group control and compliance principles provides prudent standards of control.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change implementation disciplines and business continuity and contingency planning. Where appropriate, this is supported by risk transfer mechanisms such as insurance.

The NZ Banking Group's internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports the results to the Board Audit and Compliance Committee.

#### Group Audit

The NZ Banking Group has an independent internal audit unit ("Group Audit") which reports, through the Overseas Banking Group's internal Group Assurance unit, to the Board Audit and Compliance Committee.

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

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

#### Reviews in Respect of Risk Management Systems

During the reporting period there were quarterly internal audit reviews of the adequacy of the governance framework supporting operational risk management.

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

The Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the year, which includes reviews of credit decision-making relating to products provided in New Zealand. Controls over the adequacy and effectiveness of the dynamic provisioning systems are reviewed annually by Group Audit.

The above reviews were carried out by parties internal to the Overseas Banking Group.

#### EQUITY RISK

Equity risk is the risk of loss arising from changes in the price of equity investments held by the NZ Banking Group. The NZ Banking Group has no material exposure to equity risk.

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## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 03 INTEREST</b>						
<b>INTEREST INCOME</b>						
Loans	1,239	1,190	2,352	1,036	974	1,927
Impaired assets	2	1	3	2	1	3
Related entities	-	3	-	132	178	284
Other	4	2	5	2	1	3
<b>Total interest income</b>	<b>1,245</b>	<b>1,196</b>	<b>2,360</b>	<b>1,172</b>	<b>1,154</b>	<b>2,217</b>
<b>INTEREST EXPENSE</b>						
Deposits and bills payable	605	590	1,165	605	589	1,165
Bonds, notes and commercial paper	82	80	155	6	8	14
Related entities	10	2	5	134	156	249
Subordinated bonds	2	2	4	2	2	4
Other	83	101	196	83	101	196
<b>Total interest expense</b>	<b>782</b>	<b>775</b>	<b>1,525</b>	<b>830</b>	<b>856</b>	<b>1,628</b>

The amount classified as "Interest expense-other" included items relating to the hedging of structural balance sheet interest rate and foreign exchange risk.

The NZ Banking Group has loans and deposits that are subject to set-off agreements as disclosed in note 11. For the reporting period ended 31 March 2004, interest income of \$211 million (31 March 2003: \$210 million; 30 September 2003: \$421 million) and interest expense of \$81 million (31 March 2003: \$80 million; 30 September 2003: \$161 million) had been set-off. This resulted in net interest income of \$130 million (31 March 2003: \$130 million; 30 September 2003: \$260 million) being included in interest income from loans. There is no set-off amount in the NZ Bank.

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 04 NON-INTEREST INCOME</b>						
Lending fees (loan and risk)	49	46	91	49	46	91
Net transaction fees and commissions received	116	116	230	114	114	226
Other non-risk fee income	33	27	51	33	26	50
Wealth management income	36	32	68	-	-	-
General insurance commissions and premiums (net of claims)	3	2	5	3	2	4
Trading income:						
Foreign exchange trading	28	26	52	28	26	52
Other trading	88	110	228	88	110	228
Management fees received from related entities	-	-	-	11	10	25
Other	15	4	11	-	3	3
<b>Total non-interest income</b>	<b>368</b>	<b>363</b>	<b>736</b>	<b>326</b>	<b>337</b>	<b>679</b>

In previous reporting periods the results of certain hedges on structured finance transactions were recognised as non-interest income. In the reporting period ended 31 March 2004 the hedge result has been recognised as a reduction in interest income. Prior reporting periods have been re-stated accordingly. The amount as at 31 March 2004 was \$78 million (31 March 2003: \$91 million; 30 September 2003: \$198 million). There has been no impact on reported operating income.

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 05 NON-INTEREST EXPENSES</b>						
Amortisation of intangible assets	24	23	47	20	20	39
Auditors' remuneration:						
Audit fees	-	-	-	-	-	-
Other services	-	-	1	-	-	1
Depreciation and amortisation:						
Leasehold improvements	6	5	10	-	-	-
Furniture and fittings	4	4	9	-	1	1
Computer equipment and software	23	20	43	23	19	42
Equipment expenses	4	5	10	2	4	7
Lease and rental expenses	26	25	50	5	4	8
Related entities:						
Subvention payments	-	-	-	32	36	64
Other related entities expenses	3	4	15	38	37	78
Salaries	134	129	261	130	125	253
Other staff expenses	16	19	36	16	19	36
Consultancy fees and other professional services	64	51	114	58	42	100
Communications, advertising and stationery	35	32	68	33	31	65
Other	17	14	35	13	13	33
<b>Total non-interest expenses</b>	<b>356</b>	<b>331</b>	<b>699</b>	<b>370</b>	<b>351</b>	<b>727</b>

For the reporting period ended 31 March 2004, auditors' remuneration included audit fees of \$309,000 (31 March 2003: \$285,000; 30 September 2003: \$591,000) for the NZ Bank and \$309,000 (31 March 2003: \$285,000; 30 September 2003: \$614,000) for the NZ Banking Group. Auditors' remuneration also included fees for other services for the reporting period ended 31 March 2004 of \$86,000 (31 March 2003: \$151,000; 30 September 2003: \$490,000) for the NZ Bank and \$153,000 (31 March 2003: \$196,000; 30 September 2003: \$572,000) for the NZ Banking Group.

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 06 BAD AND DOUBTFUL DEBTS EXPENSE</b>						
Specific provisions	10	3	15	10	3	15
Specific provisions no longer required	(6)	(4)	(15)	(6)	(4)	(15)
General provision	2	-	9	2	-	9
Write-offs direct	18	23	44	15	20	38
Recoveries	(6)	(19)	(26)	(5)	(18)	(26)
<b>Bad and doubtful debts expense before additional general provision</b>	<b>18</b>	<b>3</b>	<b>27</b>	<b>16</b>	<b>1</b>	<b>21</b>
Additional general provision	-	-	178	-	-	178
<b>Total bad and doubtful debts expense</b>	<b>18</b>	<b>3</b>	<b>205</b>	<b>16</b>	<b>1</b>	<b>199</b>

Further information on the additional general provision can be found in note 12.

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 07 INCOME TAX</b>						
<b>INCOME TAX EXPENSE</b>						
Operating profit before income tax expense	457	450	667	282	283	342
Prima facie income tax expense at 33 percent	151	149	220	93	94	113
<b>(Less)/add income tax effect of:</b>						
Exempt dividends	(10)	(17)	(22)	-	-	-
Non-assessable income	(3)	(4)	(7)	-	(1)	-
Non-deductible expenses	8	7	14	7	7	13
Other items	(1)	6	(2)	(52)	(6)	(84)
<b>Total income tax expense</b>	<b>145</b>	<b>141</b>	<b>203</b>	<b>48</b>	<b>94</b>	<b>42</b>
<b>Comprising:</b>						
Current income tax	135	145	273	42	85	104
Deferred income tax	(5)	(1)	(10)	(1)	3	(3)
Future income tax benefit	15	(3)	(60)	7	6	(59)
<b>Total income tax expense</b>	<b>145</b>	<b>141</b>	<b>203</b>	<b>48</b>	<b>94</b>	<b>42</b>
<b>DEFERRED INCOME TAX</b>						
Balance at beginning of the period	23	33	33	14	17	17
Current period timing differences	(5)	(1)	(10)	(1)	3	(3)
<b>Balance at end of the period</b>	<b>18</b>	<b>32</b>	<b>23</b>	<b>13</b>	<b>20</b>	<b>14</b>
<b>FUTURE INCOME TAX BENEFIT</b>						
Balance at beginning of the period	119	49	49	99	39	40
Current period timing differences	(15)	3	60	(7)	(6)	59
Other movements	-	-	10	-	-	-
<b>Balance at end of the period</b>	<b>104</b>	<b>52</b>	<b>119</b>	<b>92</b>	<b>33</b>	<b>99</b>

The balance of the dividend withholding payment account as at 31 March 2004 was nil (31 March 2003: nil; 30 September 2003: nil) and there was no movement during the reporting period ended 31 March 2004 (31 March 2003: nil; 30 September 2003: nil).

Realisation of the income tax benefit is subject to the requirements of the income tax legislation being met.

	NZ Banking Group		
	Six months ended 31 March 2004 Unaudited \$m	Six months ended 31 March 2003 Unaudited \$m	Year ended 30 September 2003 Audited \$m
<b>NOTE 08 IMPUTATION CREDIT ACCOUNT</b>			
Balance at beginning of the period	55	83	83
Imputation credits attached to dividends received during the period	2	1	2
Imputation credits attached to dividends paid during the period	(13)	(42)	(78)
Income tax payments during the period	10	14	48
Other movements	-	1	-
<b>Balance at end of the period</b>	<b>54</b>	<b>57</b>	<b>55</b>

The NZ Bank is not required to hold an imputation credit account as it is deemed not to be a resident for income tax purposes.

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 09 DUE FROM OTHER FINANCIAL INSTITUTIONS</b>						
At call	86	101	77	85	99	74
Term	1,175	21	929	1,175	21	929
<b>Total due from other financial institutions</b>	<b>1,261</b>	122	1,006	<b>1,260</b>	120	1,003
<b>NOTE 10 TRADING SECURITIES</b>						
Treasury bills	731	1,145	987	731	1,145	987
Commercial paper	152	-	69	152	-	69
New Zealand Government stock	206	690	128	206	690	128
Other trading securities	157	117	145	157	117	145
<b>Total trading securities</b>	<b>1,246</b>	1,952	1,329	<b>1,246</b>	1,952	1,329

As at 31 March 2004, included in trading securities of the NZ Banking Group and NZ Bank were assets of \$511 million encumbered through repurchase agreements (31 March 2003: \$120 million; 30 September 2003: \$416 million).

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 11 LOANS</b>						
Overdrafts	1,107	1,080	1,088	1,107	1,080	1,088
Credit card outstandings	886	863	877	801	773	791
Overnight and at call money market loans	1,080	1,076	1,097	1,080	1,076	1,097
Term loans:						
Housing	17,433	14,940	15,933	17,033	14,342	15,410
Non-housing	9,169	9,370	8,621	9,157	9,358	8,609
Other	5,551	5,498	6,011	1,158	804	1,313
<b>Total gross loans</b>	<b>35,226</b>	32,827	33,627	<b>30,336</b>	27,433	28,308
Provisions for bad and doubtful debts	(267)	(83)	(266)	(259)	(72)	(258)
<b>Total net loans</b>	<b>34,959</b>	32,744	33,361	<b>30,077</b>	27,361	28,050

Movements in impaired assets and provisions for bad doubtful debts are outlined in note 12.

The NZ Banking Group has set-off agreements in respect of loans made to a bank, the maturity of which is linked strictly to an agreement to repay specific borrowings by the NZ Banking Group from that bank. The interest rate payable on the borrowings is lower than that receivable on the loans. As at 31 March 2004, loans of \$3,650 million (31 March 2003: \$3,650 million; 30 September 2003: \$3,650 million) had been offset against the related borrowings of \$3,590 million (31 March 2003: \$3,590 million; 30 September 2003: \$3,590 million) in the statement of financial position. Related income and expense flows had been offset within the statement of financial performance with the excess of interest income over interest expense being included in total interest income as disclosed in note 3. There was no set-off in the NZ Bank.

## Notes to the Financial Statements continued

### NZ Banking Group

	Six months ended 31 March 2004			Six months ended 31 March 2003			Year ended 30 September 2003		
	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total
	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Audited \$m	Audited \$m	Audited \$m
<b>NOTE 12 IMPAIRED ASSETS</b>									
Gross impaired assets	65	-	65	66	1	67	71	-	71
Specific provisions	(7)	-	(7)	(12)	-	(12)	(8)	-	(8)
<b>Net impaired assets</b>	<b>58</b>	<b>-</b>	<b>58</b>	<b>54</b>	<b>1</b>	<b>55</b>	<b>63</b>	<b>-</b>	<b>63</b>
<b>GROSS IMPAIRED ASSETS</b>									
Balance at beginning of the period	71	-	71	91	1	92	91	1	92
Additions	186	-	186	27	-	27	47	-	47
Amounts written off	(10)	-	(10)	(4)	-	(4)	(10)	(1)	(11)
Returned to performing or repaid	(182)	-	(182)	(48)	-	(48)	(57)	-	(57)
<b>Balance at end of the period</b>	<b>65</b>	<b>-</b>	<b>65</b>	<b>66</b>	<b>1</b>	<b>67</b>	<b>71</b>	<b>-</b>	<b>71</b>
<b>Interest forgone for the period on the above impaired assets</b>			-			1			2
<b>SPECIFIC PROVISIONS</b>									
Balance at beginning of the period	8	-	8	15	-	15	15	-	15
Charge to statement of financial performance	10	-	10	3	-	3	15	-	15
Specific provisions no longer required	(6)	-	(6)	(4)	-	(4)	(15)	-	(15)
Bad debts written off	(5)	-	(5)	(2)	-	(2)	(7)	-	(7)
<b>Balance at end of the period</b>	<b>7</b>	<b>-</b>	<b>7</b>	<b>12</b>	<b>-</b>	<b>12</b>	<b>8</b>	<b>-</b>	<b>8</b>
			<b>Six months ended 31 March 2004 Unaudited \$m</b>			<b>Six months ended 31 March 2003 Unaudited \$m</b>			<b>Year ended 30 September 2003 Audited \$m</b>
<b>GENERAL PROVISION</b>									
Balance at beginning of the period			258			71			71
Credit to statement of financial performance			2			-			187
<b>Balance at end of the period</b>			<b>260</b>			<b>71</b>			<b>258</b>
<b>PAST DUE ASSETS</b>									
Balance at beginning of the period			197			248			247
Additions			17			26			47
Deletions			(180)			(60)			(97)
<b>Balance at end of the period</b>			<b>34</b>			<b>214</b>			<b>197</b>

There are no unrecognised impaired assets.

## Notes to the Financial Statements continued

### NOTE 12 IMPAIRED ASSETS continued

	<b>NZ Bank</b>								
	<b>Six months ended 31 March 2004</b>			Six months ended 31 March 2003			Year ended 30 September 2003		
	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total	Non-accrual assets	Restructured assets	Total
	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Unaudited \$m	Audited \$m	Audited \$m	Audited \$m
Gross impaired assets	61	-	61	61	1	62	67	-	67
Specific provisions	(7)	-	(7)	(9)	-	(9)	(8)	-	(8)
<b>Net impaired assets</b>	<b>54</b>	<b>-</b>	<b>54</b>	52	1	53	59	-	59
<b>GROSS IMPAIRED ASSETS</b>									
Balance at beginning of the period	67	-	67	82	1	83	81	1	82
Additions	186	-	186	27	-	27	47	-	47
Amounts written off	(10)	-	(10)	(4)	-	(4)	(8)	(1)	(9)
Returned to performing or repaid	(182)	-	(182)	(44)	-	(44)	(53)	-	(53)
<b>Balance at end of the period</b>	<b>61</b>	<b>-</b>	<b>61</b>	61	1	62	67	-	67
<b>Interest forgone for the period on the above impaired assets</b>			-			1			2
<b>SPECIFIC PROVISIONS</b>									
Balance at beginning of the period	8	-	8	12	-	12	12	-	12
Charge to statement of financial performance	10	-	10	3	-	3	15	-	15
Specific provisions no longer required	(6)	-	(6)	(4)	-	(4)	-	-	-
Provisions transferred	-	-	-	-	-	-	(15)	-	(15)
Bad debts written off	(5)	-	(5)	(2)	-	(2)	(4)	-	(4)
<b>Balance at end of the period</b>	<b>7</b>	<b>-</b>	<b>7</b>	9	-	9	8	-	8
			<b>Six months ended 31 March 2004 Unaudited \$m</b>			Six months ended 31 March 2003 Unaudited \$m			Year ended 30 September 2003 Audited \$m
<b>GENERAL PROVISION</b>									
Balance at beginning of the period			250			63			63
Credit to statement of financial performance			2			-			187
<b>Balance at end of the period</b>			<b>252</b>			63			250
<b>PAST DUE ASSETS</b>									
Balance at beginning of the period			186			235			234
Additions			15			24			45
Deletions			(175)			(57)			(93)
<b>Balance at end of the period</b>			<b>26</b>			202			186

There are no unrecognised impaired assets.

In previous reporting periods, the Overseas Banking Group held a general provision in respect of its global loan portfolio, which included a provision for the NZ Banking Group. During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect to the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of \$178 million relating to its credit exposures.

The general provision in the NZ Banking Group as at 31 March 2004 was \$260 million (31 March 2003: \$71 million; 30 September 2003: \$258 million). The general provision held by the Overseas Bank in respect of the NZ Banking Group as at 31 March 2003 was A\$158 million. Therefore, the combined general provision held by both the Overseas Bank and the NZ Banking Group as at 31 March 2003 was \$243 million.

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

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 13 INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES</b>						
Total interest earning assets	<b>38,238</b>	35,080	36,125	<b>38,307</b>	34,453	35,587
Total interest bearing liabilities	<b>32,633</b>	29,372	30,474	<b>35,406</b>	31,346	32,569

### NOTE 14 RELATED ENTITIES

#### NZ BANKING GROUP

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, BT Financial Group (NZ) Limited and its subsidiary BT Funds Management (NZ) Limited (funds management company), Westpac Group Investment - NZ - Limited and its subsidiaries and Westpac Financial Services Group - NZ - Limited and its subsidiaries. Westpac Group Investment - NZ - Limited's sole subsidiary is Westpac Holdings - NZ - Limited, which in turn has its subsidiaries listed below.

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Finance company	
Augusta Equities Limited	Finance company	
Westpac Tasman No. 2 Pty Limited	Finance company	
Mortgage Services Limited	Amalgamated 30 September 2003 into Westpac Holdings - NZ - Limited	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
Electric Investment (ANZ) Incorporated *	Finance company	60 percent owned
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
First Data Capital, Inc.*	Sold 11 March 2004	Formerly 60 percent owned
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac Capital - NZ - Limited	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
C.B.A. Finance Nominees Limited	Amalgamated 30 September 2003 into Westpac Capital - NZ- Limited	
Sfaka Investments Limited	Finance company	
Systems and Technology Limited	Amalgamated 30 September 2003 into Westpac Capital - NZ- Limited	
Westpac Funds Acceptances - NZ - Limited	Finance company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Limited	Finance company	
Bag Inns Two Limited	Finance company	
Bag Inns Three Limited	Amalgamated 30 September 2003 into Westpac Lease Discounting - NZ - Limited	
Toliman Investments Limited	Sold 15 November 2002	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
BAK Consolidated Holdings Overseas Partners *	Finance partnership	76 percent owned
Calstock Partners *	Finance partnership	67 percent owned
NZA Overseas Funding *	Finance partnership	76 percent owned
Willowemoc Partners *	Finance partnership	67 percent owned
Westpac Overseas Investments Limited	Finance company	
Hudson Loft Finance LLC *	Finance company	60 percent owned
Westpac Finance Limited	Finance company	
Westpac (NZ) Investments Limited	Property owning and capital funding company	
WestpacTrust Securities NZ Limited	Funding company	
Pacific Structured Funding NZ Limited	Funding company	

\* These subsidiaries represent interests in structured finance arrangements, in which beneficial interests, but no voting rights, are held.



## Notes to the Financial Statements continued

### NOTE 14 RELATED ENTITIES continued

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

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

All entities in the NZ Banking Group are 100% owned unless otherwise stated. Electric Investment (ANZ) Incorporated, BAK Consolidated Holdings Overseas Partners, Calstock Partners, NZA Overseas Funding, Willowemoc Partners and Hudson Loft Finance LLC are incorporated in the United States of America. Electric Investment (ANZ) Incorporated has a balance date of 31 December. All other entities within the NZ Banking Group have a balance date of 30 September and are incorporated in New Zealand, except TBNZ Investments (UK) Limited which is incorporated in the United Kingdom.

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

- Visa New Zealand Limited;
- Mondex New Zealand Limited;
- Electronic Transaction Services Limited; and
- Real Time Gross Settlement Limited.

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

In addition to the above entities, the principal related parties of the NZ Banking Group are other significant divisions of the Overseas Banking Group, based in London, Hong Kong, Sydney, New York, Tokyo and Singapore.

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

### ACQUISITIONS AND DISPOSALS OF RELATED ENTITIES

During the reporting period ended 31 March 2004, Westpac Financial Services Group - NZ - Limited was incorporated in New Zealand as a wholly owned subsidiary of Westpac Financial Services Group Limited (an Australian incorporated subsidiary of the Overseas Bank). This resulted in an increase of \$50 million in ordinary share capital.

Westpac Holdings - NZ - Limited sold four of its subsidiaries to Westpac Financial Services Group - NZ - Limited at fair value. The subsidiaries sold were Westpac Life - NZ - Limited, Westpac Investment Management - NZ - Limited, Westpac Nominees - NZ - Limited and Westpac Superannuation Nominees - NZ - Limited. There was no material impact on either the statement of financial position or the statement of financial performance of the NZ Banking Group arising from this sale.

During the reporting period ended 31 March 2004, a NZ Banking Group subsidiary, TBNZ Developments Limited, sold First Data Capital, Inc. for \$188 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the statement of financial performance.

During the year ended 30 September 2003, a number of NZ Banking Group subsidiaries were amalgamated with their immediate parent company pursuant to Part XIII of the Companies Act 1993. These amalgamations had no material impact on the statement of financial performance.

Name of Subsidiary	Date of Amalgamation	Continuing Entity
Bag Inns Three Limited	30 September 2003	Westpac Lease Discounting - NZ - Limited
C.B.A. Finance Nominees Limited	30 September 2003	Westpac Capital - NZ - Limited
Systems and Technology Limited	30 September 2003	Westpac Capital - NZ - Limited
Mortgage Services Limited	30 September 2003	Westpac Holdings - NZ - Limited

During the year ended 30 September 2003, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold Toliman Investments Limited for \$70 million to a third party. There was no material effect on the statement of financial performance.

On 31 October 2002, a NZ Banking Group subsidiary, Westpac Holdings - NZ - Limited, acquired BT Financial Group (NZ) Limited (a holding company) including its subsidiary BT Funds Management (NZ) Limited (a funds management company). This resulted in an increase in assets of \$96 million and liabilities of \$33 million, including an amount of \$67 million of goodwill recognised on purchase. The NZ Banking Group paid cash consideration in exchange for the shares in BT Financial Group (NZ) Limited. Westpac Holdings - NZ - Limited subsequently sold BT Financial Group (NZ) Limited for cash to Westpac Financial Services Group Limited (an Australian incorporated subsidiary of the Overseas Bank) on 29 September 2003 for book value. However, BT Financial Group (NZ) Limited and its subsidiary remain part of the NZ Banking Group. This resulted in a decrease in assets of \$9 million and an increase in ordinary share capital of \$80 million. There has been no net material impact on the statement of financial performance from either of these transactions.

## Notes to the Financial Statements continued

### NOTE 14 RELATED ENTITIES continued

#### NATURE OF TRANSACTIONS

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

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

A member of the NZ Banking Group had a loan to Westpac Papua New Guinea on which it was earning interest. The loan was repaid on 30 June 2003.

The NZ Bank pays subvention payments to the members of the NZ Banking Group for the use of tax losses. Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

Life insurance products are sold by the NZ Bank on behalf of other members of the NZ Banking Group. The NZ Bank receives commission from these sales.

The NZ Banking Group receives management fees from the Westpac Retirement Plan, BT Funds Management (NZ) Limited funds and Westpac unit trusts. Nominee income is received from the Westpac Securitisation Trust. This is classified as non-interest income in the statement of financial performance.

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Bank. Rental income is paid by the NZ Bank to Westpac (NZ) Investments Limited. The total charge during the reporting period ended 31 March 2004 was \$34 million (31 March 2003: \$33 million; 30 September 2003: \$67 million).

A member of the NZ Banking Group provides funding to the NZ Bank. Management fees are paid by the NZ Bank for these services.

The NZ Banking Group receives overnight funding from the London branch of Westpac Banking Corporation on an as needs basis.

The NZ Bank guarantees all payment obligations in respect to notes, bonds and commercial paper issued by the NZ Banking Group.

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

A member of the NZ Banking Group has issued redeemable preference shares of \$1,777 million to the NZ Bank. These are classified as investment in related entities in the statement of financial position. Dividends are discretionary and are treated as dividends received in the statement of financial performance. These redeemable preference shares are not entitled to exercise any voting rights except where the dividend payable is in arrears in which case they bear the same voting rights as ordinary shares.

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## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	Cost or Valuation \$m	Accumulated Depreciation \$m	Book Value \$m	Cost or Valuation \$m	Accumulated Depreciation \$m	Book Value \$m
<b>NOTE 15 PROPERTY, PLANT AND EQUIPMENT</b>						
<b>AS AT 31 MARCH 2004 (UNAUDITED)</b>						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	1	-	1	1	-	1
Leasehold improvements	131	(70)	61	1	-	1
Furniture and fittings	100	(71)	29	10	(8)	2
Computer equipment and software	317	(186)	131	313	(183)	130
<b>Total property, plant and equipment</b>	<b>550</b>	<b>(327)</b>	<b>223</b>	<b>325</b>	<b>(191)</b>	<b>134</b>
<b>AS AT 31 MARCH 2003 (UNAUDITED)</b>						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	1	-	1	1	-	1
Leasehold improvements	117	(61)	56	1	(1)	-
Furniture and fittings	91	(69)	22	9	(8)	1
Computer equipment and software	271	(142)	129	267	(139)	128
<b>Total property, plant and equipment</b>	<b>481</b>	<b>(272)</b>	<b>209</b>	<b>278</b>	<b>(148)</b>	<b>130</b>
<b>AS AT 30 SEPTEMBER 2003 (AUDITED)</b>						
Freehold buildings	1	-	1	-	-	-
Freehold buildings and improvements (at cost)	2	-	2	1	-	1
Leasehold improvements	130	(65)	65	1	(1)	-
Furniture and fittings	94	(67)	27	10	(8)	2
Computer equipment and software	296	(164)	132	293	(161)	132
<b>Total property, plant and equipment</b>	<b>523</b>	<b>(296)</b>	<b>227</b>	<b>305</b>	<b>(170)</b>	<b>135</b>
	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 16 INTANGIBLE ASSETS</b>						
Gross amount at beginning of the period	936	878	878	783	783	783
Accumulated amortisation at beginning of the period	(325)	(278)	(278)	(267)	(228)	(228)
Additional goodwill recognised during the period	-	67	67	-	-	-
Goodwill derecognised on sale of subsidiary	-	-	(64)	-	-	-
Goodwill recognised on aggregation of new entities	-	-	55	-	-	-
Amortisation recognised during the period	(24)	(23)	(47)	(20)	(20)	(39)
<b>Balance at end of the period</b>	<b>587</b>	<b>644</b>	<b>611</b>	<b>496</b>	<b>535</b>	<b>516</b>
<b>Comprising:</b>						
Gross amount	936	945	936	783	783	783
Accumulated amortisation	(349)	(301)	(325)	(287)	(248)	(267)
	<b>587</b>	<b>644</b>	<b>611</b>	<b>496</b>	<b>535</b>	<b>516</b>

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 17 OTHER ASSETS</b>						
Accrued interest receivable	141	217	133	94	106	83
Future income tax benefit	104	52	119	92	33	99
Current income tax receivable	-	-	-	17	-	12
Life insurance assets	106	75	86	-	-	-
Securities sold not delivered	124	214	59	124	214	59
Securities purchased under agreements to resell	620	604	323	620	604	323
Other financial markets assets	1,466	1,565	1,255	1,451	1,559	1,229
Other assets	175	105	100	60	41	9
<b>Total other assets</b>	<b>2,736</b>	<b>2,832</b>	<b>2,075</b>	<b>2,458</b>	<b>2,557</b>	<b>1,814</b>

### NOTE 18 DUE TO OTHER FINANCIAL INSTITUTIONS

At call	180	956	142	180	956	142
Term	287	159	59	287	159	59
<b>Total due to other financial institutions</b>	<b>467</b>	<b>1,115</b>	<b>201</b>	<b>467</b>	<b>1,115</b>	<b>201</b>

### NOTE 19 DEPOSITS

Non-interest bearing	969	1,014	938	969	1,014	938
Certificates of deposit	2,947	3,228	2,790	2,947	3,228	2,790
Other interest bearing:						
At call	10,518	8,609	9,314	10,518	8,609	9,314
Term	9,649	9,561	9,500	9,644	9,556	9,495
<b>Total deposits</b>	<b>24,083</b>	<b>22,412</b>	<b>22,542</b>	<b>24,078</b>	<b>22,407</b>	<b>22,537</b>

### DEPOSITS OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

	NZ Banking Group					
	31 March 2004 Total Unaudited \$m	31 March 2004 Weighted Average Interest Rate Unaudited %	31 March 2003 Total Unaudited \$m	31 March 2003 Weighted Average Interest Rate Unaudited %	30 September 2003 Total Audited \$m	30 September 2003 Weighted Average Interest Rate Audited %
<b>Deposits</b>						
One year or less	23,423		21,598		21,998	
Between one and two years	479	6.1	567	6.2	378	5.1
Between two and five years	166	6.1	247	6.2	166	6.1
Over five years	15	-	-	-	-	-
<b>Total deposits</b>	<b>24,083</b>		<b>22,412</b>		<b>22,542</b>	

### DEPOSITS OF THE NZ BANK MATURE AS FOLLOWS:

	NZ Bank					
	31 March 2004 Total Unaudited \$m	31 March 2004 Weighted Average Interest Rate Unaudited %	31 March 2003 Total Unaudited \$m	31 March 2003 Weighted Average Interest Rate Unaudited %	30 September 2003 Total Audited \$m	30 September 2003 Weighted Average Interest Rate Audited %
<b>Deposits</b>						
One year or less	23,422		21,594		21,993	
Between one and two years	476	6.1	567	6.2	378	5.1
Between two and five years	165	6.1	246	6.2	166	6.1
Over five years	15	-	-	-	-	-
<b>Total deposits</b>	<b>24,078</b>		<b>22,407</b>		<b>22,537</b>	

## Notes to the Financial Statements continued

<b>NZ Banking Group</b>						
<b>31 March 2004</b>	<b>31 March 2004</b>	31 March 2003	31 March 2003	30 September 2003	30 September 2003	30 September 2003
<b>Total Unaudited \$m</b>	<b>Weighted Average Interest Rate Unaudited %</b>	Total Unaudited \$m	Weighted Average Interest Rate Unaudited %	Total Audited \$m	Total Audited \$m	Weighted Average Interest Rate Audited %

### NOTE 20 BONDS, NOTES AND COMMERCIAL PAPER

#### BONDS, NOTES AND COMMERCIAL PAPER OF THE NZ BANKING GROUP MATURE AS FOLLOWS:

One year or less	5,449		4,927		5,406	
Between one and two years	1,486	1.8	199	5.7	1,443	1.5
Between two and five years	1,597	4.9	2,081	2.6	1,400	4.1
<b>Total bonds, notes and commercial paper</b>	<b>8,532</b>		<b>7,207</b>		<b>8,249</b>	

#### BONDS, NOTES AND COMMERCIAL PAPER OF THE NZ BANK MATURE AS FOLLOWS:

<b>NZ Bank</b>						
One year or less	97		60		-	
Between one and two years	100	6.2	99	5.5	97	6.0
Between two and five years	-	-	87	6.3	100	6.2
<b>Total bonds, notes and commercial paper</b>	<b>197</b>		<b>246</b>		<b>197</b>	

### NOTE 21 OTHER LIABILITIES

	<b>NZ Banking Group</b>			<b>NZ Bank</b>		
	<b>31 March 2004 Unaudited \$m</b>	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	<b>31 March 2004 Unaudited \$m</b>	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
Accrued interest payable	165	216	154	128	143	120
Current income tax payable	14	25	13	-	7	-
Provision for staff benefits	28	27	37	27	26	35
Provision for deferred income tax	18	32	23	13	20	14
Policyholder liabilities	-	3	1	-	-	-
Claims reserves	8	11	12	-	-	-
Securities purchased not delivered	98	219	113	98	219	113
Securities sold short	116	74	54	116	74	54
Securities sold under agreements to repurchase	511	120	416	511	120	416
Other financial markets liabilities	2,404	1,988	2,112	2,404	1,988	2,112
Other liabilities	192	144	241	152	129	199
<b>Total other liabilities</b>	<b>3,554</b>	<b>2,859</b>	<b>3,176</b>	<b>3,449</b>	<b>2,726</b>	<b>3,063</b>

### NOTE 22 SUBORDINATED BONDS

The subordinated bonds on issue as at 31 March 2004 have a face value of \$50 million and carry a fixed rate coupon of 7.59% p.a. which applies until 15 July 2004, at which time an early repayment option is exercisable by the NZ Bank. If the early repayment option is not exercised, the coupon rate will reset for a further five years on a three-month bank bill floating rate basis plus a margin until the maturity date of 15 July 2009. These bonds were issued at par.

The subordinated bonds are subordinated to all other obligations of the NZ Banking Group with the exception of any equity instruments.

## Notes to the Financial Statements continued

### NOTE 23 BRANCH CAPITAL

In 29 June 2001, the Overseas Bank made a capital contribution of \$600 million to the NZ Bank. The capital contribution had no fixed date for repatriation and was non-interest bearing and was, therefore, considered to be an equity instrument. This capital contribution was repatriated to the Overseas Bank on 20 August 2003.

### NOTE 24 SUBORDINATED CAPITAL INSTRUMENTS

#### NZ BANKING GROUP EQUITY HOLDERS

In 1997, the NZ Bank issued \$1,300 million of subordinated capital instruments to Westpac Overseas Funding Pty Limited (an Australian incorporated subsidiary of the Overseas Bank).

The original terms of the issue provided that the capital instruments could be redeemed either in full or in part at the discretion of the Overseas Bank Board of Directors (the "Board") on 30 June and 31 December under the following conditions:

- the NZ Bank will be solvent post-redemption;
- there are no liabilities of the NZ Bank due and unpaid or unsatisfied in aggregate which exceed 0.5% of the NZ Bank's gross assets;
- notice is given to Westpac Overseas Funding Pty Limited; and
- if the proposed redemption is within ten years of issue, Westpac Overseas Funding Pty Limited consents.

In July 1999, an amendment to the terms of the capital instruments added an alternative redemption procedure. The amendment allowed the NZ Bank and Westpac Overseas Funding Pty Limited to agree any date at any time to a redemption date, whether prior to the ten-year period, or after the ten-year period, provided the two solvency conditions noted above are satisfied.

In July 1999, the NZ Bank redeemed \$400 million of subordinated capital instruments.

On 14 May 2003, the remaining \$900 million of subordinated capital instruments issued by the NZ Bank were redeemed. The redemption was subject to the Board being satisfied on reasonable grounds on the redemption date that the redemption of the subordinated capital instruments would not breach the solvency conditions noted above. The redemption of the subordinated capital instruments was agreed to by the Board of Westpac Overseas Funding Pty Limited.

The redemption provided for the return of the maximum dividend payable (in respect of the final return period) to be distributed on the redemption date. The maximum rate on the redemption date was 7.125%.

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 25 CONVERTIBLE DEBENTURES</b>						
Trust Originated Preferred Securities	586	586	586	586	586	586
Westpac Fixed Interest Resettable Trust Securities	715	715	715	715	715	715
Trust Preferred Securities	1,279	-	1,279	1,279	-	1,279
<b>Total convertible debentures</b>	<b>2,580</b>	1,301	2,580	<b>2,580</b>	1,301	2,580

#### TRUST ORIGINATED PREFERENCE SECURITIES

In 1999, the NZ Bank issued 8% Junior Subordinated Convertible Debentures to the Chase Manhattan Bank as trustee of Tavarua Funding Trust 1 ("Funding Trust"). These debentures are convertible on 16 July 2049 into Overseas Bank preference shares ("preference shares"). They represent the proceeds (net of issue costs) of approximately US\$322 million of Trust Originated Preferred Securities ("TOPrS<sup>sm</sup>") issued by the Overseas Banking Group in the United States of America.

The convertible debentures are subordinated to the rights of all depositors and other creditors including subordinated creditors and the rights of the holders of any shares expressed to rank in priority to the preference shares. The convertible debentures will only pay a distribution to the extent it is declared by the Board of Directors, or an authorised committee of the Board. If certain conditions exist a distribution is not permitted to be declared unless approved by the Australian Prudential Regulation Authority ("APRA").

## Notes to the Financial Statements continued

### NOTE 25 CONVERTIBLE DEBENTURES continued

The convertible debentures will automatically convert into American Depositary Receipts ("ADRs") representing the Overseas Bank's preference shares (8% non-cumulative preference shares in the Overseas Bank with a liquidation preference of US\$25 per share) on 16 July 2049, or earlier in the event that a distribution is not made or certain other events occur. The dividend payment dates on the Overseas Bank preference shares will be the same days of the year as the distribution payment dates of the TOPrS. The TOPrS will then be redeemed for ADRs. The NZ Bank has entered a currency swap with the Overseas Bank under which the NZ Bank has agreed to pay the Overseas Bank United States dollars using a fixed exchange rate in exchange for the New Zealand dollar distributions and redemption payments on the convertible debentures issued to the Funding Trust.

The NZ Bank has guaranteed, on a subordinated basis, the payment in full of distributions or redemption amounts, the delivery of ADRs and other payments on the TOPrS to the extent that Funding Trust has funds available.

With the prior written consent of APRA, if required, the NZ Bank may elect to redeem the convertible debentures for cash before 16 July 2004 in whole upon the occurrence of certain specific events, and in whole or in part on one or more occasions any time on or after 16 July 2004. The proceeds received by Funding Trust from the redemption of the convertible debentures must be used to redeem the TOPrS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

### FIXED INTEREST RESETTABLE TRUST SECURITIES

During the year ended 30 September 2003, the NZ Bank issued Convertible Debentures to Westpac Financial Services Limited as responsible entity (a public company with an Australian financial services license to operate a registered managed investment scheme) of Westpac Second Trust. The investment in convertible debentures was ultimately sourced from the proceeds of approximately A\$655 million (net of issue costs) of Westpac Fixed Interest Resettable Securities ("Westpac FIRsTS") issued by Westpac Funds Management Limited as responsible entity of Westpac First Trust. Both the Westpac First Trust and the Westpac Second Trust are Australian registered managed investment schemes and are members of the Overseas Banking Group.

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

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

The Overseas Bank may reset certain terms of the convertible debentures on nominated rollover dates, the first of which is 31 December 2007. On these rollover dates the Overseas Bank may, subject to APRA guidelines, reset the next rollover date, the distribution rate, the frequency of distribution dates and the date of the next scheduled distribution.

These convertible debentures will automatically convert into a fixed number of Overseas Bank Preference Shares (or Alternative Securities if the Overseas Bank is under legal impediment and cannot issue Preference Shares) on 19 December 2052 or where the NZ Bank fails to pay scheduled distributions on the convertible debentures and that failure continues unremedied for a period of 21 days. The convertible debentures will also automatically convert into the Overseas Bank Ordinary Shares based on a predetermined formula, if triggered by certain APRA regulatory actions affecting the Overseas Bank or in certain other limited circumstances (for example, if a proceeding is commenced for the Overseas Bank to be wound up or liquidated). The Overseas Bank may elect to convert the convertible debentures into Overseas Bank Ordinary Shares in certain limited circumstances, such as where its ability to acquire or redeem Westpac FIRsTS is threatened.

These convertible debentures must be redeemed for cash at any time where the Overseas Bank has acquired the Westpac FIRsTS from Holders and has required Westpac Funds Management Limited to redeem the Westpac FIRsTS. The convertible debentures may also be redeemed for cash in other limited circumstances, such as where the ability of the Overseas Bank to acquire or redeem Westpac FIRsTS is threatened.

## Notes to the Financial Statements continued

### NOTE 25 CONVERTIBLE DEBENTURES continued

#### TRUST PREFERRED SECURITIES

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

The convertible debentures are unsecured obligations of the NZ Bank and will rank subordinate and junior in the right of payment of principal and distributions to certain of the NZ Bank's obligations to its depositors and creditors.

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

The convertible debentures have no stated maturity but will automatically convert into American Depositary Receipts ("ADRs") each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US\$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur. The TPS will then be redeemed for ADRs. The dividend payment dates on the Overseas Bank preference shares will be the same as those otherwise applicable to TPS. The dividend payment rate on the Overseas Bank preference shares will also be the same as that applicable to TPS until 30 September 2013, after which the rate will be a floating rate equal to LIBOR plus a fixed margin.

Under the terms of the convertible debentures, the NZ Bank 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 United States dollars. The NZ Bank 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 Bank may elect to redeem the convertible debentures for cash before 30 September 2013 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 30 September 2013. The proceeds received by Funding Trust III from the redemption of the convertible debentures must be used to redeem the TPS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 26 PROPERTY REVALUATION RESERVE</b>						
Balance at beginning of the period	1	1	1	-	-	-
Transfer to retained earnings on sale of property	(1)	-	-	-	-	-
<b>Balance at end of the period</b>	-	1	1	-	-	-



## Notes to the Financial Statements continued

### NZ Banking Group

	<b>31 March 2004 Unaudited \$m</b>	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 27 NZ CLASS SHARES</b>			
NZ Class Shares issued	<b>610</b>	610	610
NZ Class Shares held as Treasury Stock	-	(12)	-
NZ Class Shares held as Treasury Stock now cancelled	<b>(12)</b>	-	(12)
<b>Balance at end of the period</b>	<b>598</b>	598	598

On 12 October 1999, a controlled entity, Westpac (NZ) Investments Limited ("WNZI"), issued 54,393,306 NZ Class Shares. A first instalment of \$7.20 per NZ Class Share was received on application and a second instalment of \$4.75 per NZ Class Share was received on 20 December 2000.

The NZ Class Shares were recorded at the total of the first instalment and the present value of the second instalment, net of issue costs.

As at 31 March 2004, there were 53,694,931 NZ Class Shares on issue (31 March 2003: 54,393,306; 30 September 2003: 53,694,931) with no NZ Class Shares held as Treasury Stock (31 March 2003: 698,375; 30 September 2003: nil).

Key features of these shares are:

- each NZ Class Share is entitled to dividends if declared. Any dividends paid on the NZ Class Shares will be the New Zealand dollar equivalent of the dividends paid on Westpac Banking Corporation ordinary shares (adjusted by the exchange fraction, if required);
- NZ Class Shareholder's voting rights in WNZI are limited to voting on major transactions, changes to the constitution where those changes affect the rights of the shares, and voting on special resolutions to terminate or amend the Exchange or Voting Deeds;
- NZ Class Shares are exchangeable into Westpac Banking Corporation ordinary shares upon the occurrence of certain events. In particular, in the event of liquidation of WNZI, the NZ Class Shares must be exchanged. Once this exchange occurs, the current holders of the NZ Class Shares are not entitled to participate in the residual net assets of WNZI in the event of a liquidation; and
- NZ Class Shares held as Treasury Stock have none of the features mentioned above as all their rights and obligations are suspended until they are reissued.

As the NZ Class Shares do not have any entitlement to earnings in priority to ordinary shareholders in WNZI, earnings of WNZI are not attributed to the NZ Class Shareholders in the statement of financial performance. Dividends on the NZ Class Shares are accounted for as distributions when declared.

### EMPLOYEE SHARE OWNERSHIP

In March 2000, the NZ Bank established a staff share scheme and all permanent members of staff were allocated NZ Class Shares in WNZI. The shares were purchased by the NZ Bank on the market and have the same features as the NZ Class Shares outlined above. The second instalment payable on the shares was settled by the NZ Bank on 20 December 2000. Three further allocations of fully paid shares have been made to staff, occurring in December 2000, December 2001 and December 2002, on the same basis as the original allocation.

In February 2004, the NZ Bank ceased to operate the staff share scheme. There will be no further allocations of fully paid shares to staff under this scheme.

### TREASURY STOCK

On 9 May 2002, WNZI gave notice that it intended to commence an on-market buy-back of up to 1.5 million NZ Class Shares for a period of six months from 24 May 2002. During the buy-back WNZI acquired 698,375 NZ Class Shares for a total amount of \$12.2 million. These shares were not cancelled immediately and were held as Treasury Stock. As such, WNZI had the right to reissue these shares at a later date. These shares represented 1.28% of the NZ Class Shares on issue at the commencement of the buy-back. As at 14 August 2002 the share buy-back scheme ceased.

On 7 May 2003, WNZI cancelled the 698,375 NZ Class Shares that were being held as Treasury Stock, reducing the number of shares on issue to 53,694,931.

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 28 COMMITMENTS AND CONTINGENT LIABILITIES</b>						
<b>COMMITMENTS FOR CAPITAL EXPENDITURE</b>						
Due within one year	21	19	55	17	-	52
<b>LEASE COMMITMENTS</b> (all leases are classified as operating leases)						
One year or less	33	32	31	33	32	31
Between one and two years	26	27	25	26	27	25
Between two and five years	49	53	50	49	53	50
Over five years	28	40	34	28	40	34
<b>Total lease commitments</b>	<b>136</b>	152	140	<b>136</b>	152	140
<b>CONTINGENT LIABILITIES</b>						
Direct credit substitutes	248	150	192	248	150	192
Transaction related contingent items	540	298	541	540	298	541
Trade related contingent liabilities	583	249	617	583	249	617
<b>Total contingent liabilities</b>	<b>1,371</b>	697	1,350	<b>1,371</b>	697	1,350

### OTHER CONTINGENT ASSETS AND 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 where appropriate.

The New Zealand Inland Revenue Department ("NZIRD") is reviewing a number of structured finance transactions as part of its audit of the 1999 and 2000 tax years. This is part of a broader NZIRD investigation and review of structured finance transactions in the New Zealand market. No formal notices or amended assessments have been received in relation to these transactions. The NZ Bank is working cooperatively with the NZIRD and has voluntarily granted a six-month waiver on the statutory time bar in relation to the 1999 tax year transactions to allow full consideration of these transactions and the related tax treatment. The NZ Bank sought a binding ruling on an initial transaction in 1999, which was granted by the NZIRD in early 2001 following extensive discussions. The principles underlying the ruled transaction have been adhered to in subsequent transactions. The NZ Bank is confident that the appropriate tax treatment has been applied to these transactions and that the NZIRD review should not ultimately result in a material adverse outcome.

The NZ Bank has a contingent liability, which arises from it holding an investment in Visa New Zealand Limited ("Visa"). Visa, as a group member of Visa International is responsible for the obligations (including settlement) of its members. Additionally, there are cross-guarantee obligations for the Asia-Pacific region. There are caps in respect of both these obligations and reserves are held by Visa to cover the non-performance of any of its members. It is not envisaged that any liability resulting in a material loss to the NZ Bank will arise from these contingencies.

The Overseas Bank guarantees certain obligations of WestpacTrust Securities NZ Limited under funding programs that provide funding to the NZ Banking Group.

The NZ Banking Group has a contingent asset in respect of \$16 million (31 March 2003: nil; 30 September 2003: \$27 million) contributed to various funds managed by its wealth management subsidiaries. During the period ended 31 March 2004 a sum of \$11 million was returned to the NZ Banking Group and was recognised in other non-interest income. The repayment of the remaining sum is dependent on the future performance of these funds.

### OTHER COMMITMENTS

As at 31 March 2004, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business as detailed in note 29. The NZ Banking Group has management systems and operational controls in place to manage interest rate risk and currency risk as outlined in note 2. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK

#### RISK WEIGHTED EXPOSURES

The risk weighted exposures are derived in accordance with the Reserve Bank of New Zealand's Capital Adequacy Framework (the "Framework") as required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (New Zealand).

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

While securitised mortgages are excluded from the statement of financial position, they are included in the New Zealand risk adjusted exposures as required by the Reserve Bank of New Zealand's Capital Adequacy Framework.

The current exposure method has been used to calculate the credit equivalent of market related contracts with the exception of the following transactions where the carrying amount has been used:

- a debt/equity swap undertaken between Westpac (NZ) Investments Limited ("WNZI") and the NZ Bank in which WNZI will receive payments based on the dividend paid on Westpac Ordinary Shares. The purpose of this swap is to enable WNZI to derive an income stream equivalent to the dividend payable on the NZ Class Shares; and
- a cross currency swap and an interest rate swap undertaken between the NZ Bank and the Overseas Bank under which the NZ Bank has agreed to pay the Overseas Bank United States dollars using a fixed exchange rate in exchange for the New Zealand dollar distributions and redemption payments on the convertible debentures issued to the Tavarua Funding Trust 1.

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

NZ Banking Group  
31 March 2004 – Unaudited

#### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,646	0%	-
Long term claims on government	148	10%	15
Claims on banks and New Zealand local authorities	5,554	20%	1,111
Residential mortgages	17,487	50%	8,744
Other assets	15,499	100%	15,499
Non-risk weighted assets	1,966		-
<b>Total on-balance sheet exposures</b>	<b>42,300</b>		<b>25,369</b>

#### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitized mortgages	810	50%	405
<b>Total securitized mortgage exposures</b>	<b>810</b>		<b>405</b>

#### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	248	100%	248	100%	248
<b>Total direct credit substitutes</b>	<b>248</b>		<b>248</b>		<b>248</b>

#### COMMITMENTS

Commitments with certain drawdown	-	100%	-	100%	-
Housing loan commitments with certain drawdown	34	100%	34	50%	17
Transaction related contingent items	540	50%	270	100%	270
Short term, self liquidating trade related contingent liabilities	583	20%	117	100%	117
Other commitments to provide financial services which have an original maturity of one year or more	4,965	50%	2,483	100%	2,483
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>11,156</b>		<b>2,904</b>		<b>2,887</b>

#### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	32,337		928	25%	233
Options	20		1	0%	-
Swaps	18,349		1,726	23%	398
Interest rate contracts:					
Forwards	12,223		3	33%	1
Futures	3,193		-	0%	-
Options	2,816		1	100%	1
Swaps	78,579		911	31%	282
<b>Total market related contracts (derivatives)</b>	<b>147,517</b>		<b>3,570</b>		<b>915</b>
<b>Total off-balance sheet exposures</b>	<b>158,921</b>		<b>6,722</b>		<b>4,050</b>
<b>Total risk weighted exposures</b>					<b>29,824</b>

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

**NZ Banking Group**  
31 March 2003 – Unaudited

#### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,953	0%	-
Long term claims on government	842	10%	84
Claims on banks and New Zealand local authorities	4,840	20%	968
Residential mortgages	15,043	50%	7,522
Other assets	15,436	100%	15,436
Non-risk weighted assets	2,209		-
<b>Total on-balance sheet exposures</b>	<b>40,323</b>		<b>24,010</b>

#### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitized mortgages	945	50%	473
<b>Total securitized mortgage exposures</b>	<b>945</b>		<b>473</b>

#### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Guarantees	-	100%	-	100%	-
Standby letters of credit and financial guarantees	150	100%	150	100%	150
<b>Total direct credit substitutes</b>	<b>150</b>		<b>150</b>		<b>150</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	19	100%	19	100%	19
Housing loan commitments with certain drawdown	2,473	100%	2,473	50%	1,237
Transaction related contingent items	298	50%	149	100%	149
Short term, self liquidating trade related contingent liabilities	249	20%	50	100%	50
Other commitments to provide financial services which have an original maturity of one year or more	1,665	50%	833	100%	833
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	7,087	0%	-	0%	-
<b>Total commitments</b>	<b>11,791</b>		<b>3,524</b>		<b>2,288</b>

#### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	26,333		1,037	24%	249
Options	10		-	20%	-
Swaps	17,493		1,083	23%	248
Interest rate contracts:					
Forwards	8,714		2	24%	-
Futures	15,586		-	0%	-
Options	561		4	38%	2
Swaps	61,500		951	27%	257
<b>Total market related contracts (derivatives)</b>	<b>130,197</b>		<b>3,077</b>		<b>756</b>
<b>Total off-balance sheet exposures</b>	<b>142,138</b>		<b>6,751</b>		<b>3,194</b>
<b>Total risk weighted exposures</b>					<b>27,677</b>

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

**NZ Banking Group**  
30 September 2003 – Audited

#### CALCULATION OF ON-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,116	0%	-
Long term claims on government	489	10%	49
Claims on banks and New Zealand local authorities	5,294	20%	1,059
Residential mortgages	16,031	50%	8,016
Other assets	15,150	100%	15,150
Non-risk weighted assets	1,865		-
<b>Total on-balance sheet exposures</b>	<b>39,945</b>		<b>24,274</b>

#### CALCULATION OF SECURITISED MORTGAGE EXPOSURES

Securitized mortgages	846	50%	423
<b>Total securitized mortgage exposures</b>	<b>846</b>		<b>423</b>

#### CALCULATION OF OFF-BALANCE SHEET EXPOSURES

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	192	100%	192	100%	192
<b>Total direct credit substitutes</b>	<b>192</b>		<b>192</b>		<b>192</b>

#### COMMITMENTS

Commitments with certain drawdown	55	100%	55	100%	55
Housing loan commitments with certain drawdown	25	100%	25	50%	13
Transaction related contingent items	541	50%	271	100%	271
Short term, self liquidating trade related contingent liabilities	617	20%	123	100%	123
Other commitments to provide financial services which have an original maturity of one year or more	4,851	50%	2,426	100%	2,426
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,392	0%	-	0%	-
<b>Total commitments</b>	<b>11,481</b>		<b>2,900</b>		<b>2,888</b>

#### MARKET RELATED CONTRACTS (DERIVATIVES)

Foreign exchange contracts:					
Forwards	23,838		777	24%	186
Options	25		1	0%	-
Swaps	17,985		1,180	23%	269
Interest rate contracts:					
Forwards	6,324		1	0%	-
Futures	28,285		-	0%	-
Options	685		2	50%	1
Swaps	68,184		1,005	25%	255
<b>Total market related contracts (derivatives)</b>	<b>145,326</b>		<b>2,966</b>		<b>711</b>
<b>Total off-balance sheet exposures</b>	<b>156,999</b>		<b>6,058</b>		<b>3,791</b>
<b>Total risk weighted exposures</b>					<b>28,488</b>

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

**NZ Bank**  
**31 March 2004 – Unaudited**

<b>CALCULATION OF ON-BALANCE SHEET EXPOSURES</b>	<b>Principal Amount \$m</b>		<b>Risk Weighting</b>	<b>Risk Weighted Exposure \$m</b>	
Cash and short term claims on government	1,644		0%	-	
Long term claims on government	144		10%	14	
Claims on banks and New Zealand local authorities	1,336		20%	267	
Residential mortgages	17,086		50%	8,543	
Other assets	21,040		100%	21,040	
Non-risk weighted assets	1,868			-	
<b>Total on-balance sheet exposures</b>	<b>43,118</b>			<b>29,864</b>	
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitised mortgages	810		50%	405	
<b>Total securitised mortgage exposures</b>	<b>810</b>			<b>405</b>	
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>					
	<b>Principal Amount \$m</b>	<b>Credit Conversion Factor</b>	<b>Credit Equivalent Amount \$m</b>	<b>Average Counterparty Risk Weighting</b>	<b>Risk Weighted Exposure \$m</b>
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	248	100%	248	100%	248
<b>Total direct credit substitutes</b>	<b>248</b>		<b>248</b>		<b>248</b>
<b>COMMITMENTS</b>					
Housing loan commitments with certain drawdown	34	100%	34	50%	17
Transaction related contingent items	540	50%	270	100%	270
Short term, self liquidating trade related contingent liabilities	583	20%	117	100%	117
Other commitments to provide financial services which have an original maturity of one year or more	4,965	50%	2,483	100%	2,483
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
<b>Total commitments</b>	<b>11,156</b>		<b>2,904</b>		<b>2,887</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	32,337		928	25%	233
Options	20		-	0%	-
Swaps	18,349		1,726	23%	398
Interest rate contracts:					
Forwards	12,223		4	25%	1
Futures	3,193		-	0%	-
Options	2,816		2	50%	1
Swaps	79,410		920	31%	287
<b>Total market related contracts (derivatives)</b>	<b>148,348</b>		<b>3,580</b>		<b>920</b>
<b>Total off-balance sheet exposures</b>	<b>159,752</b>		<b>6,732</b>		<b>4,055</b>
<b>Total risk weighted exposures</b>					<b>34,324</b>

## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

**NZ Bank**  
31 March 2003 – Unaudited

<b>CALCULATION OF ON-BALANCE SHEET EXPOSURES</b>	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m		
Cash and short term claims on government	1,942	0%	-		
Long term claims on government	836	10%	84		
Claims on banks and New Zealand local authorities	540	20%	108		
Residential mortgages	14,441	50%	7,221		
Other assets	20,533	100%	20,533		
Non-risk weighted assets	2,095		-		
<b>Total on-balance sheet exposures</b>	<b>40,387</b>		<b>27,946</b>		
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitised mortgages	945	50%	473		
<b>Total securitised mortgage exposures</b>	<b>945</b>		<b>473</b>		
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Guarantees	-	100%	-	100%	-
Standby letters of credit and financial guarantees	150	100%	150	100%	150
<b>Total direct credit substitutes</b>	<b>150</b>		<b>150</b>		<b>150</b>
<b>COMMITMENTS</b>					
Housing loan commitments with certain drawdown	2,473	100%	2,473	50%	1,237
Transaction related contingent items	298	50%	149	100%	149
Short term, self liquidating trade related contingent liabilities	249	20%	50	100%	50
Other commitments to provide financial services which have an original maturity of one year or more	1,665	50%	833	100%	833
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	7,087	0%	-	0%	-
<b>Total commitments</b>	<b>11,772</b>		<b>3,505</b>		<b>2,269</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	26,333		1,037	24%	249
Options	10		1	20%	-
Swaps	17,499		1,083	23%	249
Interest rate contracts:					
Forwards	8,714		2	24%	-
Futures	15,586		-	0%	-
Options	561		4	38%	2
Swaps	62,518		965	27%	261
<b>Total market related contracts (derivatives)</b>	<b>131,221</b>		<b>3,092</b>		<b>761</b>
<b>Total off-balance sheet exposures</b>	<b>143,143</b>		<b>6,747</b>		<b>3,180</b>
<b>Total risk weighted exposures</b>					<b>31,599</b>



## Notes to the Financial Statements continued

### NOTE 29 CREDIT RISK continued

**NZ Bank**  
30 September 2003 – Audited

<b>CALCULATION OF ON-BALANCE SHEET EXPOSURES</b>	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m		
Cash and short term claims on government	1,116	0%	-		
Long term claims on government	482	10%	48		
Claims on banks and New Zealand local authorities	1,052	20%	210		
Residential mortgages	15,506	50%	7,753		
Other assets	20,115	100%	20,115		
Non-risk weighted assets	1,749		-		
<b>Total on-balance sheet exposures</b>	<b>40,020</b>		<b>28,126</b>		
<b>CALCULATION OF SECURITISED MORTGAGE EXPOSURES</b>					
Securitized mortgages	846	50%	423		
<b>Total securitized mortgage exposures</b>	<b>846</b>		<b>423</b>		
<b>CALCULATION OF OFF-BALANCE SHEET EXPOSURES</b>					
	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
<b>DIRECT CREDIT SUBSTITUTES</b>					
Standby letters of credit and financial guarantees	192	100%	192	100%	192
<b>Total direct credit substitutes</b>	<b>192</b>		<b>192</b>		<b>192</b>
<b>COMMITMENTS</b>					
Commitments with certain drawdown	52	100%	52	100%	52
Housing loan commitments with certain drawdown	25	100%	25	50%	13
Transaction related contingent items	541	50%	271	100%	271
Short term, self liquidating trade related contingent liabilities	617	20%	123	100%	123
Other commitments to provide financial services which have an original maturity of one year or more	4,851	50%	2,426	100%	2,426
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,392	0%	-	0%	-
<b>Total commitments</b>	<b>11,478</b>		<b>2,897</b>		<b>2,885</b>
<b>MARKET RELATED CONTRACTS (DERIVATIVES)</b>					
Foreign exchange contracts:					
Forwards	23,838		777	24%	186
Options	25		1	0%	-
Swaps	17,985		1,180	23%	269
Interest rate contracts:					
Forwards	6,324		1	0%	-
Futures	28,285		-	0%	-
Options	685		2	50%	1
Swaps	69,202		1,017	26%	261
<b>Total market related contracts (derivatives)</b>	<b>146,344</b>		<b>2,978</b>		<b>717</b>
<b>Total off-balance sheet exposures</b>	<b>158,014</b>		<b>6,067</b>		<b>3,794</b>
<b>Total risk weighted exposures</b>					<b>32,343</b>

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 30 CONCENTRATION OF CREDIT EXPOSURES</b>						
<b>ON-BALANCE SHEET CREDIT EXPOSURES CONSIST OF:</b>						
Cash	107	124	103	107	114	103
Due from other financial institutions	1,261	122	1,006	1,260	120	1,003
Trading securities	1,246	1,952	1,329	1,246	1,952	1,329
Loans	34,959	32,744	33,361	30,077	27,361	28,050
Due from related entities	1,181	1,696	1,233	5,563	5,841	5,293
Other assets	2,632	2,780	1,956	2,366	2,524	1,715
<b>Total on-balance sheet credit exposures</b>	<b>41,386</b>	<b>39,418</b>	<b>38,988</b>	<b>40,619</b>	<b>37,912</b>	<b>37,493</b>
<b>ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY GEOGRAPHICAL AREAS:</b>						
Within New Zealand	35,679	33,628	33,266	39,890	37,466	37,163
Australia and Asia-Pacific	1,313	1,102	1,026	668	446	330
United Kingdom and Europe	-	-	-	61	-	-
North America	4,394	4,688	4,696	-	-	-
<b>Total on-balance sheet credit exposures</b>	<b>41,386</b>	<b>39,418</b>	<b>38,988</b>	<b>40,619</b>	<b>37,912</b>	<b>37,493</b>
<b>ANALYSIS OF ON-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	1,607	2,447	1,842	1,607	2,437	1,842
Agriculture	2,299	2,157	2,236	2,297	2,157	2,236
Other primary industries	303	352	183	316	352	183
Commercial and financial	16,515	15,189	15,010	11,961	10,323	10,166
Real estate - construction	322	258	297	309	246	285
Real estate - mortgage	17,519	14,943	15,914	17,160	14,371	15,430
Instalment loans and other personal lending	1,725	2,342	2,431	1,598	2,207	2,299
<b>Subtotal</b>	<b>40,290</b>	<b>37,688</b>	<b>37,913</b>	<b>35,248</b>	<b>32,093</b>	<b>32,441</b>
General provision	(260)	(71)	(258)	(252)	(63)	(250)
Due from related entities	1,181	1,696	1,233	5,563	5,841	5,293
Other assets	175	105	100	60	41	9
<b>Total on-balance sheet credit exposures</b>	<b>41,386</b>	<b>39,418</b>	<b>38,988</b>	<b>40,619</b>	<b>37,912</b>	<b>37,493</b>
<b>OFF-BALANCE SHEET CREDIT EXPOSURES BY CREDIT EQUIVALENT CONSIST OF:</b>						
Contingent liabilities and commitments	3,152	3,674	3,092	3,152	3,655	3,089
Derivatives	3,570	3,077	2,966	3,580	3,092	2,978
<b>Total off-balance sheet credit exposures by credit equivalent</b>	<b>6,722</b>	<b>6,751</b>	<b>6,058</b>	<b>6,732</b>	<b>6,747</b>	<b>6,067</b>
<b>ANALYSIS OF OFF-BALANCE SHEET CREDIT EXPOSURES BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	124	88	117	120	88	117
Agriculture	48	108	95	48	108	95
Other primary industries	13	29	25	13	29	25
Commercial and financial	4,907	3,974	4,334	4,921	3,970	4,343
Real estate - construction	87	65	65	87	65	65
Real estate - mortgage	1,535	2,473	1,416	1,535	2,473	1,416
Instalment loans and other personal lending	8	14	6	8	14	6
<b>Total off-balance sheet credit exposures by credit equivalent</b>	<b>6,722</b>	<b>6,751</b>	<b>6,058</b>	<b>6,732</b>	<b>6,747</b>	<b>6,067</b>

Credit exposure is determined with reference to actual credit exposures.

## Notes to the Financial Statements continued

### NOTE 30 CONCENTRATION OF CREDIT EXPOSURES continued

#### ANALYSIS OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The number of counterparties to which the NZ Banking Group has a credit exposure equal to or greater than 10% of the Overseas Banking Group's equity is shown below.

##### Individual Counterparties

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2004	31 March 2004	As at 31 March 2003	31 March 2003	As at 30 September 2003	30 September 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-

##### Closely Related Counterparties

	Peak end-of-day for the three months ended		Peak end-of-day for the three months ended		Peak end-of-day for the three months ended	
	As at 31 March 2004	31 March 2004	As at 31 March 2003	31 March 2003	As at 30 September 2003	30 September 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
<b>10 - 20% of Overseas Banking Group's Equity</b>						
Bank counterparties	1	1	2	2	1	1
Non-bank counterparties	-	-	-	-	-	-

The peak end-of-day exposure and as at exposures have been calculated using the Overseas Banking Group's equity as at 31 March 2004. The equity used in the 31 March 2003 comparatives was as at 31 March 2003. The equity used in the 30 September 2003 comparatives was as at 30 September 2003. Credit exposure used in the above calculations is determined with reference to actual credit exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to those counterparties if they are recorded outside New Zealand nor exposures to any OECD government. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of specific provisions.

The 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.

## Notes to the Financial Statements continued

### NOTE 31 RANKING OF LOCAL CREDITORS IN A WINDING-UP

The Banking Act in Australia gives priority over Australian assets of the Overseas Bank to Australian depositors. Accordingly, New Zealand depositors (together with all other senior unsecured creditors of the Overseas Bank) will rank after Australian depositors of the Overseas Bank in relation to claims against Australian assets.

However, the Westpac Banking Corporation Act in New Zealand gives New Zealand depositors priority to the New Zealand assets of the Overseas Bank. Accordingly, New Zealand depositors will rank ahead of other unsecured creditors of the Overseas Bank in respect of claims against the New Zealand assets of the Overseas Bank. The following legislation is relevant to limitations on possible claims made by unsecured creditors of the NZ Bank on the assets of the Overseas Bank relative to those of any other class of unsecured creditors of the Overseas Bank, in the event of a winding-up of the Overseas Bank.

Section 13A (3) of the Banking Act 1959 (Australia) states:

“If an authorised deposit-taking institution (“ADI”) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet that ADI’s deposit liabilities in Australia in priority to all other liabilities of the ADI.”

Section 13A (3) of the Banking Act 1959 (Australia) affects all the unsecured deposit liabilities of the NZ Bank which as at 31 March 2004 amounted to \$24,274 million (31 March 2003: \$22,653 million; 30 September 2003: \$22,733 million).

The Overseas Bank is an “authorised deposit-taking institution” within the meaning of section 13A (3).

Section 23 of the Westpac Banking Corporation Act 1982 (New Zealand) states:

“Deposit liabilities –

- (1) Except as otherwise authorised by the Reserve Bank of New Zealand, the Continuing Bank shall at all times hold in New Zealand assets (other than goodwill) of not less than the value of the total of the Continuing Bank’s deposit liabilities in New Zealand.
- (2) In the event of the Continuing Bank becoming unable to meet its obligations or suspending payment, the assets of the Continuing Bank in New Zealand shall be available to meet the Continuing Bank’s deposit liabilities in New Zealand in priority to all other liabilities of the Continuing Bank.
- (3) Every person who acts in contravention of or fails to comply with subsection (1) of this section commits an offence and is liable on conviction or indictment to a fine not exceeding \$25,000 and, if the offence is a continuing one, to a further fine not exceeding \$2,000 for every day on which the offence has continued.
- (4) Nothing in this section limits the provisions of the Reserve Bank of New Zealand Act 1989.”

The NZ Bank has at all times held in New Zealand assets (other than goodwill) of not less than the value of the NZ Bank’s total deposit liabilities in New Zealand. The Overseas Bank is the “Continuing Bank” within the meaning of section 23.

## Notes to the Financial Statements continued

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>NOTE 32 CONCENTRATION OF FUNDING</b>						
<b>FUNDING CONSISTS OF:</b>						
Due to other financial institutions	467	1,115	201	467	1,115	201
Due to related entities	780	1,525	702	12,009	10,629	10,910
Deposits	24,083	22,412	22,542	24,078	22,407	22,537
Bonds, notes and commercial paper <sup>1</sup>	8,532	7,207	8,249	197	246	197
<b>Total funding</b>	<b>33,862</b>	<b>32,259</b>	<b>31,694</b>	<b>36,751</b>	<b>34,397</b>	<b>33,845</b>
<b>ANALYSIS OF FUNDING BY PRODUCT:</b>						
Saving accounts	1,283	1,286	1,323	1,283	1,286	1,323
Certificates of deposits	2,947	3,228	2,790	2,947	3,227	2,790
Demand deposits	7,520	5,917	6,370	7,520	5,917	6,370
Other deposits and borrowings	20,865	19,188	20,308	12,525	12,223	12,251
<b>Subtotal</b>	<b>32,615</b>	<b>29,619</b>	<b>30,791</b>	<b>24,275</b>	<b>22,653</b>	<b>22,734</b>
Due to other financial institutions	467	1,115	201	467	1,115	201
Due to related entities	780	1,525	702	12,009	10,629	10,910
<b>Total funding</b>	<b>33,862</b>	<b>32,259</b>	<b>31,694</b>	<b>36,751</b>	<b>34,397</b>	<b>33,845</b>
<b>ANALYSIS OF FUNDING BY GEOGRAPHICAL AREAS:<sup>1</sup></b>						
New Zealand	24,047	23,820	22,627	35,272	32,922	32,795
Australia and Asia-Pacific	1,420	1,268	1,015	1,418	1,265	1,050
United Kingdom and Europe	3,451	4,327	3,930	61	210	-
North America	4,944	2,844	4,122	-	-	-
<b>Total funding</b>	<b>33,862</b>	<b>32,259</b>	<b>31,694</b>	<b>36,751</b>	<b>34,397</b>	<b>33,845</b>
<b>ANALYSIS OF FUNDING BY INDUSTRY AND ECONOMIC SECTOR:</b>						
Government and other public authorities	1,211	1,116	1,033	1,211	1,116	1,033
Agriculture	365	598	348	365	598	348
Other primary industries	141	237	164	141	237	164
Commercial and financial	17,048	16,668	16,252	8,709	9,703	8,196
Households	14,317	12,115	13,195	14,316	12,114	13,194
<b>Subtotal</b>	<b>33,082</b>	<b>30,734</b>	<b>30,992</b>	<b>24,742</b>	<b>23,768</b>	<b>22,935</b>
Due to related entities	780	1,525	702	12,009	10,629	10,910
<b>Total funding</b>	<b>33,862</b>	<b>32,259</b>	<b>31,694</b>	<b>36,751</b>	<b>34,397</b>	<b>33,845</b>

1. The geographic region used for bonds, notes and commercial paper is the location in which they were originally issued. These instruments may have subsequently been on-sold.

## Notes to the Financial Statements continued

### NOTE 33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

#### CERTAIN SHORT TERM FINANCIAL INSTRUMENTS

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

#### FLOATING RATE FINANCIAL INSTRUMENTS

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

#### TRADING SECURITIES

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

#### 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.

#### IMPAIRED ASSETS

For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

#### DEPOSITS, BONDS, NOTES, COMMERCIAL PAPER, BILLS PAYABLE AND DUE TO OTHER FINANCIAL INSTITUTIONS

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

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

#### COMMITMENTS TO EXTEND CREDIT, FINANCIAL GUARANTEES, PERFORMANCE BONDS AND LETTERS OF CREDIT

For commitments, financial guarantees, performance bonds and letters of credit, no fair values have been ascribed on the basis that these financial instruments generate ongoing fees at the NZ Banking Group's current pricing levels.

#### EXCHANGE RATE AND INTEREST RATE CONTRACTS

For exchange rate and interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The carrying amount and fair value for these contracts are included in "other assets" or "other liabilities" as applicable. Where the fair value cannot be reliably estimated, the carrying amount is reported as the fair value amount. The NZ Banking Group has the following transactions where fair values cannot be reliably estimated:

- a debt/equity swap undertaken between Westpac (NZ) Investments Limited ("WNZI") and the NZ Bank in which WNZI will receive payments based on the dividend paid on Westpac Ordinary Shares. The purpose of this swap is to enable WNZI to derive an income stream equivalent to the dividend payable on the NZ Class Shares; and
- a cross currency swap and an interest rate swap undertaken between the NZ Bank and the Overseas Bank under which the NZ Bank has agreed to pay the Overseas Bank United States dollars using a fixed exchange rate in exchange for the New Zealand dollar distributions and redemption payments on the convertible debentures issued to the Tavarua Funding Trust 1.

#### SUBORDINATED BONDS

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

## Notes to the Financial Statements continued

### NOTE 33 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	<b>NZ Banking Group</b>					
	<b>31 March 2004 Carrying Amount Unaudited \$m</b>	<b>31 March 2004 Estimated Fair Value Unaudited \$m</b>	31 March 2003 Carrying Amount Unaudited \$m	31 March 2003 Estimated Fair Value Unaudited \$m	30 September 2003 Carrying Amount Audited \$m	30 September 2003 Estimated Fair Value Audited \$m
<b>FINANCIAL ASSETS</b>						
Cash	107	107	124	124	103	103
Due from other financial institutions	1,261	1,261	122	122	1,006	1,006
Trading securities	1,246	1,246	1,952	1,952	1,329	1,329
Loans	34,959	34,889	32,744	32,760	33,361	33,327
Due from related entities	1,181	1,181	1,696	1,696	1,233	1,233
Other assets	2,632	2,632	2,780	2,555	1,956	1,933
<b>Total financial assets</b>	<b>41,386</b>	<b>41,316</b>	39,418	39,209	38,988	38,931
Non-financial assets	914		905		957	
<b>Total assets</b>	<b>42,300</b>		40,323		39,945	
<b>FINANCIAL LIABILITIES</b>						
Due to other financial institutions	467	467	1,115	1,115	201	201
Deposits	24,083	24,123	22,412	22,425	22,542	22,571
Bonds, notes and commercial paper	8,532	8,533	7,207	7,233	8,249	8,310
Due to related entities	780	780	1,525	1,525	702	702
Other liabilities	3,536	3,536	2,827	2,827	3,153	3,153
Subordinated bonds	50	50	50	52	50	51
<b>Total financial liabilities</b>	<b>37,448</b>	<b>37,489</b>	35,136	35,177	34,897	34,988
Non-financial liabilities	18		32		23	
<b>Total liabilities</b>	<b>37,466</b>		35,168		34,920	
<b>NZ Bank</b>						
<b>FINANCIAL ASSETS</b>						
Cash	107	107	114	114	103	103
Due from other financial institutions	1,260	1,260	120	120	1,003	1,003
Trading securities	1,246	1,246	1,952	1,952	1,329	1,329
Loans	30,077	30,012	27,361	27,376	28,050	28,016
Due from related entities	5,563	5,563	5,841	5,841	5,293	5,293
Other assets	2,366	2,365	2,524	2,305	1,715	1,688
<b>Total financial assets</b>	<b>40,619</b>	<b>40,553</b>	37,912	37,708	37,493	37,432
Non-financial assets	2,499		2,475		2,527	
<b>Total assets</b>	<b>43,118</b>		40,387		40,020	
<b>FINANCIAL LIABILITIES</b>						
Due to other financial institutions	467	467	1,115	1,115	201	201
Deposits	24,078	24,118	22,407	22,420	22,537	22,566
Bonds, notes and commercial paper	197	199	246	247	197	199
Due to related entities	12,009	12,009	10,629	10,629	10,910	10,910
Other liabilities	3,436	3,436	2,706	2,726	3,049	3,049
Subordinated bonds	50	50	50	52	50	51
<b>Total financial liabilities</b>	<b>40,237</b>	<b>40,279</b>	37,153	37,189	36,944	36,976
Non-financial liabilities	13		20		14	
<b>Total liabilities</b>	<b>40,250</b>		37,173		36,958	

## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK

The interest rate repricing analysis below is based on contractual repricing dates. The NZ Banking Group manages interest rate risk taking into account both contractual and behavioural repricing. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in note 2.

The effective interest rates and interest repricing of financial instruments as at balance date were as follows:

<b>NZ Banking Group</b>							
<b>31 March 2004 – Unaudited</b>							
	<b>Weighted Average Interest Rate %</b>	<b>Total \$m</b>	<b>Within 6 Months \$m</b>	<b>Between 6 Months and 1 Year \$m</b>	<b>Between 1 and 2 Years \$m</b>	<b>Between 2 and 5 Years \$m</b>	<b>Over 5 Years \$m</b>
<b>FINANCIAL ASSETS</b>							
Cash	-	107	107	-	-	-	-
Due from other financial institutions	5.2	1,261	1,261	-	-	-	-
Trading securities	5.2	1,246	728	326	23	58	111
Loans	7.8	34,959	21,058	2,698	3,807	7,355	41
Due from related entities	-	1,181	1,181	-	-	-	-
Other assets	-	2,632	2,632	-	-	-	-
<b>Total financial assets</b>		<b>41,386</b>	<b>26,967</b>	<b>3,024</b>	<b>3,830</b>	<b>7,413</b>	<b>152</b>
Non-financial assets		914					
<b>Total assets</b>		<b>42,300</b>					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	3.2	467	467	-	-	-	-
Deposits	4.7	24,083	22,267	1,156	479	166	15
Bonds, notes and commercial paper	2.1	8,532	5,352	97	1,486	1,597	-
Due to related entities	0.2	780	780	-	-	-	-
Other liabilities	-	3,536	3,536	-	-	-	-
Subordinated bonds	7.5	50	50	-	-	-	-
<b>Total financial liabilities</b>		<b>37,448</b>	<b>32,452</b>	<b>1,253</b>	<b>1,965</b>	<b>1,763</b>	<b>15</b>
Non-financial liabilities		18					
<b>Total liabilities</b>		<b>37,466</b>					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	10,078	(4,978)	(1,866)	(3,737)	503



## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK continued

<b>NZ Banking Group</b>							
31 March 2003 – Unaudited							
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
<b>FINANCIAL ASSETS</b>							
Cash	-	124	124	-	-	-	-
Due from other financial institutions	2.2	122	122	-	-	-	-
Trading securities	5.2	1,952	1,379	513	9	17	34
Loans	7.8	32,744	21,064	2,932	3,314	5,428	6
Due from related entities	0.4	1,696	1,696	-	-	-	-
Other assets	-	2,780	2,772	-	4	4	-
<b>Total financial assets</b>		39,418	27,157	3,445	3,327	5,449	40
Non-financial assets		905					
<b>Total assets</b>		40,323					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	2.2	1,115	1,115	-	-	-	-
Deposits	4.4	22,412	20,824	782	559	247	-
Bonds, notes and commercial paper	2.1	7,207	6,192	429	199	387	-
Due to related entities	0.5	1,525	1,525	-	-	-	-
Other liabilities	-	2,827	2,827	-	-	-	-
Subordinated bonds	7.6	50	-	-	50	-	-
<b>Total financial liabilities</b>		35,136	32,483	1,211	808	634	-
Non-financial liabilities		32					
<b>Total liabilities</b>		35,168					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	5,441	(467)	(1,810)	(3,801)	637

## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK continued

#### NZ Banking Group 30 September 2003 – Audited

	Weighted Average Interest Rate%	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
<b>FINANCIAL ASSETS</b>							
Cash	-	103	103	-	-	-	-
Due from other financial institutions	4.7	1,006	1,006	-	-	-	-
Trading securities	5.2	1,329	808	320	63	35	103
Loans	7.5	33,361	18,558	5,354	3,457	5,987	5
Due from related entities	0.3	1,233	1,233	-	-	-	-
Other assets	-	1,956	1,956	-	-	-	-
<b>Total financial assets</b>		<b>38,988</b>	<b>23,664</b>	<b>5,674</b>	<b>3,520</b>	<b>6,022</b>	<b>108</b>
Non-financial assets		957					
<b>Total assets</b>		<b>39,945</b>					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	1.2	201	201	-	-	-	-
Deposits	4.0	22,542	16,924	3,007	1,513	1,090	8
Bonds, notes and commercial paper	1.9	8,249	5,190	216	1,443	1,400	-
Due to related entities	0.2	702	702	-	-	-	-
Other liabilities	-	3,153	3,153	-	-	-	-
Subordinated bonds	7.5	50	-	50	-	-	-
<b>Total financial liabilities</b>		<b>34,897</b>	<b>26,170</b>	<b>3,273</b>	<b>2,956</b>	<b>2,490</b>	<b>8</b>
Non-financial liabilities		23					
<b>Total liabilities</b>		<b>34,920</b>					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	10,184	(3,867)	(1,883)	(5,178)	744

## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK continued

#### NZ Bank 31 March 2004 – Unaudited

	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
<b>FINANCIAL ASSETS</b>							
Cash	-	107	107	-	-	-	-
Due from other financial institutions	5.2	1,260	1,260	-	-	-	-
Trading securities	5.2	1,246	728	326	23	58	111
Loans	7.7	30,077	20,409	2,649	3,798	3,180	41
Due from related entities	4.4	5,563	5,563	-	-	-	-
Other assets	-	2,366	2,366	-	-	-	-
<b>Total financial assets</b>		<b>40,619</b>	<b>30,433</b>	<b>2,975</b>	<b>3,821</b>	<b>3,238</b>	<b>152</b>
Non-financial assets		2,499					
<b>Total assets</b>		<b>43,118</b>					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	3.2	467	467	-	-	-	-
Deposits	4.7	24,078	22,266	1,156	476	165	15
Bonds, notes and commercial paper	5.9	197	-	97	100	-	-
Due to related entities	2.7	12,009	9,026	-	1,386	1,597	-
Other liabilities	-	3,436	3,436	-	-	-	-
Subordinated bonds	7.5	50	50	-	-	-	-
<b>Total financial liabilities</b>		<b>40,237</b>	<b>35,245</b>	<b>1,253</b>	<b>1,962</b>	<b>1,762</b>	<b>15</b>
Non-financial liabilities		13					
<b>Total liabilities</b>		<b>40,250</b>					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	10,689	(4,978)	(1,866)	(3,737)	(108)

## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK continued

<b>NZ Bank</b>							
31 March 2003 – Unaudited							
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
<b>FINANCIAL ASSETS</b>							
Cash	-	114	114	-	-	-	-
Due from other financial institutions	2.2	120	120	-	-	-	-
Trading securities	5.5	1,952	1,379	513	9	17	34
Loans	7.6	27,361	20,118	2,825	3,169	1,243	5
Due from related entities	6.1	5,841	2,341	-	-	3,500	-
Other assets	-	2,524	2,524	-	-	-	-
<b>Total financial assets</b>		37,912	26,596	3,338	3,178	4,760	39
Non-financial assets		2,475					
<b>Total assets</b>		40,387					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	2.2	1,115	1,115	-	-	-	-
Deposits	4.4	22,407	20,820	782	559	246	-
Bonds, notes and commercial paper	6.2	246	60	-	99	87	-
Due to related entities	2.6	10,629	9,800	429	100	300	-
Other liabilities	-	2,706	2,706	-	-	-	-
Subordinated bonds	7.6	50	-	-	-	50	-
<b>Total financial liabilities</b>		37,153	34,501	1,211	758	683	-
Non-financial liabilities		20					
<b>Total liabilities</b>		37,173					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	5,677	(279)	(1,621)	(3,801)	24

## Notes to the Financial Statements continued

### NOTE 34 INTEREST RATE RISK continued

<b>NZ Bank</b>							
30 September 2003 – Audited							
	Weighted Average Interest Rate %	Total \$m	Within 6 Months \$m	Between 6 Months and 1 Year \$m	Between 1 and 2 Years \$m	Between 2 and 5 Years \$m	Over 5 Years \$m
<b>FINANCIAL ASSETS</b>							
Cash	-	103	103	-	-	-	-
Due from other financial institutions	4.7	1,003	1,003	-	-	-	-
Trading securities	5.2	1,329	808	320	63	35	103
Loans	7.5	28,050	17,194	4,935	3,429	2,487	5
Due from related entities	6.1	5,293	761	-	-	4,532	-
Other assets	-	1,715	1,715	-	-	-	-
<b>Total financial assets</b>		37,493	21,584	5,255	3,492	7,054	108
Non-financial assets		2,527					
<b>Total assets</b>		40,020					
<b>FINANCIAL LIABILITIES</b>							
Due to other financial institutions	1.2	201	201	-	-	-	-
Deposits	4.0	22,537	16,918	3,007	1,513	1,091	8
Bonds, notes and commercial paper	6.1	197	-	-	97	100	-
Due to related entities	2.1	10,910	10,512	211	187	-	-
Other liabilities	-	3,049	3,049	-	-	-	-
Subordinated bonds	7.5	50	-	50	-	-	-
<b>Total financial liabilities</b>		36,944	30,680	3,268	1,797	1,191	8
Non-financial liabilities		14					
<b>Total liabilities</b>		36,958					
<b>OFF-BALANCE SHEET FINANCIAL INSTRUMENTS</b>							
Net interest rate contracts (principal):							
Receivable/(payable)		-	10,607	(3,678)	(1,883)	(5,179)	133

## Notes to the Financial Statements continued

### NOTE 35 FOREIGN CURRENCY RISK

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

#### NET OPEN POSITION

	NZ Banking Group			NZ Bank		
	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m	31 March 2004 Unaudited \$m	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
<b>Receivable/(payable)</b>						
Australian Dollar	1	(3)	3	1	(3)	3
Euro	4	(2)	-	4	(2)	-
Great Britain Pound	1	-	1	1	-	1
Japanese Yen	(1)	(2)	(2)	(1)	(2)	(2)
United States Dollar	(16)	41	(10)	(16)	41	(10)
Other	(1)	1	2	(1)	1	2

### NOTE 36 CAPITAL ADEQUACY

The Overseas Bank and the Overseas Banking Group are subject to the capital adequacy requirements as specified by the Australian Prudential Regulation Authority ("APRA"). The capital adequacy requirements are based on the framework proposed by the Basel Committee on Banking Supervision, which have been endorsed by banking supervisory authorities in the G10 and other industrial countries.

	Overseas Banking Group				Minimum Capital Adequacy Ratio as specified by APRA %
	31 March 2004 Unaudited %	31 March 2003 Unaudited %	30 September 2003 Audited %		
Tier One Capital, expressed as a percentage of risk weighted exposures	7.2	6.4	7.2		4.0
Capital, expressed as a percentage of risk weighted exposures	10.2	9.7	10.5		8.0

  

	Overseas Bank				Minimum Capital Adequacy Ratio as specified by APRA %
	31 March 2004 Unaudited %	31 March 2003 Unaudited %	30 September 2003 Audited %		
Tier One Capital, expressed as a percentage of risk weighted exposures	6.3	6.2	6.5		4.0
Capital, expressed as a percentage of risk weighted exposures	10.0	10.2	10.5		8.0

The Overseas Bank and the Overseas Banking Group exceed the minimum capital adequacy requirements as specified by APRA as at 31 March 2004. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

## Notes to the Financial Statements continued

### NOTE 37 SECURITISATION, FUNDS MANAGEMENT AND OTHER FIDUCIARY ACTIVITIES

#### SECURITISATION

As at 31 March 2004, the NZ Banking Group had securitised assets amounting to \$810 million (31 March 2003: \$945 million; 30 September 2003: \$846 million) via the Westpac Securitisation Trust program ("WST program") and various private placements including the Home Loan Trust program ("HLT program").

The NZ Banking Group receives fees for various services provided to the WST program and HLT program on an arm's length basis, including servicing fees and/or trustee fees. These fees are recognised over the period in which the costs are borne. The NZ Banking Group also provides arm's length interest rate swaps and liquidity facilities to the WST program.

The securities issued by the WST program and the units issued by the HLT program do not represent deposits or other liabilities of either the NZ Banking Group or the Overseas Banking Group. Neither the NZ Banking Group nor the Overseas Banking Group, in any way, stand behind the capital value and/or performance of the securities or the assets of the WST program or HLT program except to the limited extent provided in the transaction documents for those programs through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the securities or units. Neither the NZ Banking Group nor the Overseas Banking Group is obliged to support any losses that may be suffered by the investors and neither intend to provide such support. The NZ Banking Group has no right to repurchase any of the securitised loans and has no obligation to do so, other than in certain circumstances (excluding loan impairment) where there is a breach of representation or warranty within 120 days of the initial sale. Repurchases of securitised loans may also occur through the WST program's clean up features where any repurchase is conducted at market terms and conditions to a maximum of 10% of the securitised program's initial value.

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.

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

	<b>31 March 2004 Unaudited \$m</b>	31 March 2003 Unaudited \$m	30 September 2003 Audited \$m
Corporate	<b>92</b>	86	91
Private and priority	<b>112</b>	135	112
Retirement plans	<b>1,062</b>	889	997
Superannuation funds	<b>421</b>	383	411
Unit trusts	<b>1,836</b>	1,792	1,861
<b>Total funds under management</b>	<b>3,523</b>	3,285	3,472

#### INVOLVEMENT WITH THE NZ BANKING GROUP

The NZ Bank has disclosed in note 28 where it has acted as guarantor and surety of certain obligations and unit trusts. Financial services provided by, and assets purchased from, any member of the NZ Banking Group are on arm's length terms and conditions at their fair value.

#### RISK MANAGEMENT

The NZ Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures will minimise the possibility that those conditions would impact adversely on the NZ Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

## Notes to the Financial Statements continued

### NOTE 38 SEGMENT INFORMATION

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

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### NOTE 39 EVENTS SUBSEQUENT TO BALANCE DATE

On 6 May 2004, the Overseas Bank announced that the Board of Directors has decided to redeem the TOPrS<sup>SM</sup> on 16 July 2004. The redemption will be funded from existing sources.

On 6 May 2004, Westpac (NZ) Investments Limited announced that it intends to commence an on-market buy-back of up to 1 million NZ Class Shares over a maximum period of six months.

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PricewaterhouseCoopers Tower  
188 Quay Street  
Level 22 Reception  
Level 8 Mail Centre  
Private Bag 92162  
Auckland  
New Zealand  
Telephone +64 9 355 8000  
Facsimile +64 9 355 8001

## AUDITORS' REPORT

TO THE DIRECTORS OF WESTPAC BANKING CORPORATION

We have reviewed the financial statements on pages 10 to 62 and the supplementary information contained in the section "Market Risk" on page 6. The financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Branch (the "NZ Bank") and Westpac Banking Corporation New Zealand Division (the "NZ Banking Group") and their financial position as at 31 March 2004. This information is stated in accordance with the accounting policies set out on pages 15 to 19.

The financial statements consist of the financial statements of the NZ Bank and the consolidated financial statements of the NZ Banking Group for the six months ended 31 March 2004, and contain the supplementary information required by Clause 12(3) of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 1998 (the "Order"). The supplementary information in the section "Market Risk" on page 6 contains those disclosures required by Clause 12(4) of the Order.

## DIRECTORS' RESPONSIBILITIES

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2004 and their financial performance and cash flows for the six months ended on that date. They are also responsible for the preparation and presentation of the supplementary information which:

- gives a true and fair view, in accordance with Clause 12(3) of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8 of the Order in accordance with Clause 12(4) of the Order.

## REVIEWERS' RESPONSIBILITIES

We are responsible for reviewing the financial statements and supplementary information disclosed in accordance with Clauses 12(2) and 12(3) of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the financial statements and supplementary information do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.



WESTPAC BANKING CORPORATION

We are also responsible for reviewing the supplementary information disclosed in accordance with Clause 12(4) of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the supplementary information does not comply with Schedules 7 and 8 of the Order, and for reporting our findings to you.

**BASIS OF REVIEW STATEMENT**

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 Bank 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 Bank and the NZ Banking Group in the areas of taxation and consulting advice. In addition, certain partners and employees of our firm may deal with the NZ Bank and the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Bank and the NZ Banking Group. We have no other interests in the NZ Bank or the NZ Banking Group.

**UNQUALIFIED REVIEW STATEMENT**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- (a) the financial statements do not:
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2004 and their financial performance and cash flows for the six months ended on that date; and
- (b) the supplementary information as required by Clause 12(3) of the Order does not give a true and fair view of the matters to which it relates; and
- (c) the supplementary information required by Clause 12(4) of the Order, does not comply with Schedules 7 and 8 of the Order.

Our work was completed on 6 May 2004 and our unqualified review statement is expressed as at that date.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

Chartered Accountants

Auckland





Westpac is the New Zealand division of Westpac Banking Corporation, which is incorporated in New South Wales, Australia  
ABN 33 007 457 141