



Westpac Banking Corporation General Disclosure Statement

For the year ended 30 September 2009

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General information and definitions

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

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

- Westpac Banking Corporation Group (otherwise referred to as the **'Overseas Banking Group'**) – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the **'Overseas Bank'**) – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the **'NZ Banking Group'**) – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business. As at 30 September 2009, the NZ Banking Group included the following subsidiary entities:
 - Westpac New Zealand Group Limited and its subsidiary companies - Holding company
 - Westpac Group Investment - NZ - Limited - Holding company
 - Westpac Holdings - NZ - Limited - Holding company
 - Augusta (1962) Limited - Non-trading company
 - BT Financial Group (NZ) Limited and its subsidiary companies - Holding company
 - Westpac Equity Investments NZ Limited - Finance company
 - TBNZ Limited and its subsidiary companies - Holding company
 - Westpac Capital - NZ - Limited and its subsidiary companies - Finance and holding company
 - Westpac Finance Limited - Finance company
 - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
 - WestpacTrust Securities NZ Limited - Funding company
 - BLE Capital (NZ) Limited - Finance company
 - Hastings Forestry Investments Limited - Non-trading company
 - Tasman Funding No. 1 Limited and its jointly owned subsidiary company - Funding entity
 - Tasman Funding No. 2 Limited and its jointly owned subsidiary company - Funding entity
 - Westpac NZ Funding Limited - Funding entity
 - St.George New Zealand Limited - Funding entity
 - St.George Financial Investments New Zealand Limited - Non-trading company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the **'NZ Branch'**) – refers to the 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 2009.

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

General matters

Registered Bank

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

Overseas Bank

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

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

General matters (continued)

Registered bank: directorate and advisers

Directors

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

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

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

Name: John Simon Curtis, BA, LLB (Hons.)

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

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

Non-executive: No

Country of Residence: Australia

Primary Occupation: Managing Director and Chief Executive Officer

Secondary Occupations: None

Board Audit Committee Member: No

Independent Director: No

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

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

Name: Gordon McKellar Cairns, MA (Hons.)

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

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

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

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

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

External Directorships: Director of Navitas Limited, Member of Asia Pacific Regional Advisory Group of the International Monetary Fund.

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

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

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

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

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

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

General matters (continued)

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

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes, Chairman

Independent Director: Yes

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

Name: Graham John Reaney, BComm, CPA

Non-executive: Yes

Country of Residence: Australia

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

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

Name: Peter David Wilson, CA

Non-executive: Yes

Country of Residence: New Zealand

Primary Occupation: Director

Secondary Occupations: None

Board Audit Committee Member: Yes

Independent Director: Yes

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

Since publication of the NZ Branch's last General Disclosure Statement there has been no change to the composition of the Board.

Chief Executive Officer, NZ Branch

Name: David McLean, LLB (Hons.)

Country of Residence: New Zealand

Primary Occupation: Chief Executive Officer, NZ Branch

Secondary Occupations: None

External Directorships: None

Responsible person

George Frazis, Chief Executive, Westpac New Zealand Limited, has been authorised in writing by each Director named on pages 2 and 3, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this General Disclosure Statement on the Directors' behalf. Accordingly George Frazis is a Responsible Person under the Order. The following disclosures are made in relation to George Frazis in his capacity as a Responsible Person:

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

Country of Residence: New Zealand

Primary Occupation: Chief Executive, Westpac New Zealand Limited

Secondary Occupations: None

Address for communications

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

Conflicts of interest policy

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

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

General matters (continued)

Interested transactions

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

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

Solicitors

Simpson Grierson
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

Auditors

Overseas Banking Group

PricewaterhouseCoopers
201 Sussex Street
Sydney, NSW 1171
Australia

New Zealand Banking Group

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Westpac in New Zealand

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

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's General Disclosure Statement for the year ended 30 September 2009.

The Reserve Bank of New Zealand (**'Reserve Bank'**), Westpac New Zealand and the NZ Branch agreed to an independent review of the structure of the operating model of the Overseas Banking Group's business in New Zealand. This review was conducted under the well established processes and framework contemplated by section 95 of the Reserve Bank of New Zealand Act 1989. The report from the independent reviewer to the Reserve Bank was completed on 30 September 2009. The report contained various observations, which are being considered by Westpac New Zealand and the NZ Branch. Operating model and governance change that may result from this process will be the subject of discussions with the Reserve Bank and will be appropriately disclosed in Westpac New Zealand's and NZ Branch's General Disclosure Statements.

Credit ratings

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

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

In the two years prior to 30 September 2009, the Overseas Bank credit rating issued by Fitch Ratings has not changed. The rating was put on rating watch positive on 12 May 2008 (from a 'stable' outlook) and affirmed at AA- with a stable outlook on 3 December 2008.

In the two years prior to 30 September 2009, the Overseas Bank credit rating issued by Moody's Investors Service has not changed. However, on 2 March 2009, Moody's Investors Service revised the outlook for the Overseas Bank rating to 'negative' from 'stable'. In changing the outlook to negative, Moody's Investors Service cited the potential for the deepening global economic downturn to have a protracted impact on all the major Australian banks.

In the two years prior to 30 September 2009, the Overseas Bank credit rating issued by Standard & Poor's has not changed. The outlook for the rating has also remained unchanged at 'stable'.

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

Descriptions of credit rating scales¹

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

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

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

Financial statements of the Overseas Bank and the Overseas Banking Group

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

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group (which are contained in the NZ Branch's Supplemental Disclosure Statement) can also be accessed at the internet address www.westpac.com.au.

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

Historical summary of financial statements

	NZ Banking Group						
	2009 NZ IFRS ^{1,2} \$m	2008 NZ IFRS ³ \$m	2007 NZ IFRS \$m	2006 NZ IFRS \$m	2005 NZ IFRS ^{4,5} \$m	2005 NZ FRS ^{5,7} \$m	2004 NZ FRS ^{6,7} \$m
Income statement							
Interest income	4,622	5,387	4,603	3,793	3,081	2,986	2,596
Interest expense	(3,142)	(4,049)	(3,359)	(2,625)	(2,019)	(1,892)	(1,499)
Net interest income	1,480	1,338	1,244	1,168	1,062	1,094	1,097
Non-interest income	610	620	528	524	545	593	591
Net operating income	2,090	1,958	1,772	1,692	1,607	1,687	1,688
Operating expenses	(808)	(814)	(736)	(699)	(680)	(726)	(731)
Impairment charges on loans	(690)	(181)	(91)	(31)	(44)	(44)	(39)
Profit before income tax expense	592	963	945	962	883	917	918
Income tax expense	(1,086)	(281)	(295)	(319)	(216)	(292)	(297)
(Loss)/profit after income tax expense	(494)	682	650	643	667	625	621
(Loss)/profit after income tax expense attributable to:							
Head office account and equity holders of NZ Banking Group	(497)	679	646	639	662	611	617
Minority interests in subsidiary companies	3	3	4	4	5	14	4
	(494)	682	650	643	667	625	621
NZ Branch profit repatriation to the Overseas Bank	-	(602)	(137)	(322)	(333)	(333)	(350)
Dividends paid or provided for on ordinary share capital	(13)	(175)	(31)	(160)	-	-	-
Dividends paid or provided for on preference share capital	(104)	(15)	-	-	-	-	-
Dividends paid or provided for on convertible debentures (net of tax)	(69)	(66)	(69)	(67)	(107)	(107)	(138)
Dividends paid or provided for on NZ Class shares	-	-	-	-	(54)	(54)	(50)
Balance sheet							
Total assets	73,444	70,882	64,602	52,136	45,336	45,050	42,491
Total impaired assets (including restructured assets)	676	278	118	66	80	80	58
Total liabilities	69,539	66,750	60,729	48,719	41,370	41,072	38,064
Total head office account	1,392	174	1,361	1,307	1,090	-	-
Total head office account and equity	3,905	4,132	3,873	3,417	3,966	3,978	4,427

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

² Income tax expense includes a provision totalling \$918 million in relation to nine structured finance transactions which occurred between 1998 and 2002 that were disputed by the New Zealand Inland Revenue Department. Refer to Note 7 and 33 for further information.

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

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

⁵ During the year ended 30 September 2005: (a) the NZ Banking Group redeemed all of the NZ Class shares on issue for \$618 million; (b) the NZ Banking Group disposed of several subsidiaries which reduced the NZ Banking Group's outside minority interest by \$659 million; and (c) the NZ Branch received \$698 million of branch capital from the Overseas Banking Group.

⁶ During the year ended 30 September 2004, the NZ Branch redeemed \$586 million of convertible debentures (net of issue costs) issued to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust.

⁷ These numbers have not been prepared under NZ IFRS. The primary adjustments are referred to in footnote 4 above.

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

Guarantee arrangements

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

Guarantee of deposits by the Australian Government: Financial Claims Scheme

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

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

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

From 28 November 2008, the first A\$1 million of 'protected accounts' held with an eligible ADI (including most deposits) will be guaranteed without charge under the FCS. The A\$1 million threshold applies to the total amount of funds held by a depositor in (separate) deposit accounts with an eligible ADI. An eligible institution will be able to obtain coverage for deposit amounts over A\$1 million under the Guarantee Facility (as described more fully below) in return for a fee.

Guarantee arrangements (continued)

Under the FCS, if APRA has applied for the winding-up of an ADI and a declaration has been made by the responsible Australian Government minister that the FCS applies to that ADI:

- holders of protected accounts (as defined below) with net credit balances are entitled to payment from APRA of the balance plus accrued interest (subject to certain adjustments); and
- APRA is assigned the relevant account holder's right to claim this amount from the ADI.

For the purposes of the FCS, a 'protected account' is:

- an account where the ADI is required to pay the account holder, on demand or at an agreed time, the net credit balance of the account; and
- another account or financial product prescribed by regulation.

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

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

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

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

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

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

As described above, from 28 November 2008, the first A\$1 million in 'protected accounts' (as defined above) held with an eligible ADI (including most deposits) will be guaranteed for free under the FCS. However, an eligible institution will be able to obtain coverage for deposits of amounts over A\$1 million and wholesale term funding under the Guarantee Facility in return for payment of a fee. Liabilities of an eligible institution will only have the benefit of the Guarantee Facility where an eligibility certificate has been issued by the Commonwealth of Australia in respect of those liabilities.

The Overseas Bank is entitled to apply for the issue of an eligibility certificate for certain liabilities (including certain securities to be issued under its established debt issuance programmes) to have the benefit of the Guarantee. The Guarantee Facility is restricted to senior unsecured liabilities which are not complex and issued domestically in Australia or off-shore of Australia by eligible institutions and which must meet certain eligibility criteria, with the Guarantee to apply for the full term of the relevant liabilities including in the period following the closure of the facility to new issuances. The Guarantee Facility is available for debt issuance in all major currencies (including New Zealand dollars). Guidance on the meaning of 'not complex' is available at www.guaranteescheme.gov.au/rules/. Details of eligibility certificates issued in respect of the liabilities of the Overseas Bank are available at www.guaranteescheme.gov.au/liabilities/.

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

The Australian Government has also announced that it will withdraw the Guarantee Facility by declaration once market conditions have normalised. However, withdrawal of the Guarantee will not affect the obligations of the Commonwealth with respect to any liabilities which have the benefit of the Guarantee at the time of the withdrawal.

Enforcement of the Guarantee

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

If the Guarantor does not perform its obligations under the Guarantee, a beneficiary of the Guarantee could commence proceedings against the Commonwealth of Australia under the Judiciary Act 1903 of Australia ('**Judiciary Act**'). In such proceedings, the rights of parties are, as nearly as possible, the same as in proceedings between subjects of the Commonwealth of Australia. Jurisdiction to hear claims against the Commonwealth of Australia in contract is vested in certain Australian courts under the Judiciary Act. In proceedings under the Judiciary Act, the Guarantor would not be entitled to any defence based on crown or sovereign immunity.

However, if a judgment is obtained against the Guarantor in proceedings under the Judiciary Act, no execution or attachment can be issued against the property or revenues of the Commonwealth of Australia. Nevertheless, if any judgment is given against the Guarantor in such proceedings, the Minister for Finance of the Commonwealth of Australia is obliged to satisfy the judgment out of money legally available, on receipt of a certificate of the judgment issued by an officer of a court in which such judgment has been obtained.

Guarantee arrangements (continued)

In order to render money legally available, specific appropriation by legislation passed by the Parliament of the Commonwealth of Australia would be necessary before any payment is made, unless the amount involved is such that it could be paid out of funds available under an existing standing appropriation. The Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Act 2008 of Australia provides, among other things, that the Consolidated Revenue Fund of the Commonwealth of Australia is appropriated for the purpose of paying claims under the Guarantee in accordance with the Scheme Rules.

The Guarantee does not contain any submission to the courts of a foreign jurisdiction or any waiver of any crown or sovereign immunity which might be available to the Commonwealth of Australia under the law of any foreign jurisdiction.

Fees in relation to the Australian Government's large deposit and wholesale term funding guarantees

Fees apply to the wholesale term funding guarantee and the guarantee for deposits above the A\$1 million threshold. A different fee applies to eligible institutions based on their long-term credit rating. The fee which applies to the Overseas Bank, based on its current long-term rating by Standard & Poor's of AA, is 70 basis points (or 0.70%). The fee is levied on a monthly basis.

Other material conditions of the Guarantee

The following are material conditions to the application of the Guarantee that are separate from the non-performance of an eligible institution in respect of the relevant obligations covered by the Guarantee.

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

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

A material condition to the issue of an eligibility certificate in relation to a liability to be guaranteed under the Guarantee is the issuance of a Counter-Indemnity by the applicant eligible institution in favour of the Guarantor. The Counter-Indemnity must be in the form prescribed by the Scheme Rules or such other form as is approved by the Guarantor.

Obligations of the Overseas Bank covered by the Guarantee

As at the date this General Disclosure Statement was signed by the Directors and Chief Executive Officer of the NZ Branch, eligibility certificates have been issued by the Commonwealth of Australia in respect of certain of the Overseas Bank's existing deposit and wholesale term funding liabilities. Applications have also been made to the Commonwealth of Australia by the Overseas Bank for eligibility certificates to be issued in respect of certain other wholesale term funding liabilities that may be issued by the Overseas Bank in the future pursuant to its established debt issuance programmes and the Commonwealth has indicated that it anticipates being able to issue such eligibility certificates upon receipt of specific details of those liabilities. Details of eligibility certificates issued in respect of the liabilities of the Overseas Bank are available on www.guaranteescheme.gov.au/liabilities/.

Information about the Guarantor

The Guarantor's name and address for service is: The Commonwealth of Australia, c/o - The Treasury of the Commonwealth of Australia, Treasury Building, Langton Crescent, Parkes ACT 2600, Australia.

A copy of the most recent audited financial statements of the Guarantor is available at www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/.

The credit ratings assigned to the Guarantor's long-term obligations payable in Australian dollars (the currency of its jurisdiction) are AAA by Standard & Poor's, Aaa by Moody's Investors Service Inc. and AAA by Fitch Ratings. The outlook for each of these ratings is 'stable'. There have been no changes in these credit ratings (including outlook) in the two years prior to 30 September 2009.

New Zealand deposit guarantee scheme

On 12 October 2008 the New Zealand Government announced an opt-in deposit guarantee scheme under which it will guarantee deposits with participating New Zealand registered banks and non-bank deposit taking entities, with effect from 12 October 2008. The guarantee is for a period of two years from the announcement date.

Westpac New Zealand has opted into the existing scheme, and entered into a Crown Deed of Guarantee with the New Zealand Government on 11 November 2008, which was amended by a Supplemental Deed dated 24 November 2008 (together '**Guarantee**').

The Crown may withdraw the Guarantee and has recently announced that it will be exercising this option and will be withdrawing the current Guarantee in respect of new investments from 1 January 2010 and offering guaranteed institutions (including Westpac New Zealand) the opportunity to enter a new guarantee deed (see Revised Guarantee below).

Further details of the Guarantee are available in Westpac New Zealand's General Disclosure Statement for the year ended 30 September 2009 and from the Treasury internet site www.treasury.govt.nz.

The NZ Branch has not opted into the existing scheme.

The Guarantee extends to all debt securities issued by Westpac New Zealand in any currency (which includes deposits and other amounts lent to Westpac New Zealand), other than debt securities issued to related parties or to financial institutions. It does not extend to subordinated debt obligations. Financial institutions include persons who carry on the business of borrowing and lending money, or providing financial services (and extends to registered banks). There is a limit on the amount of the debt securities covered by the Guarantee of NZ\$1 million per creditor.

Under the Guarantee, Westpac New Zealand was required to pay a fee of 10 basis points (or 0.1%) on the amounts owing to creditors covered by the Guarantee to the extent that the amount owing exceeded \$5 billion as at 12 October 2008. An additional 10 basis point fee was payable in respect of the position as at 12 October 2009.

Guarantee arrangements (continued)

Extension of the deposit guarantee scheme

On 25 August 2009, the New Zealand Government announced an extension of the deposit guarantee scheme until 31 December 2011. The extension is effectively a new guarantee scheme. The new scheme will commence on 12 October 2010 (when the existing deposit guarantee scheme ends) and end on 31 December 2011. An institution covered by the existing deposit guarantee scheme (such as Westpac New Zealand) must reapply if it wishes to have a guarantee under the new scheme. As at the date of this General Disclosure Statement, no such application has been made by Westpac New Zealand. The NZ Branch has also not made any application. Further details of the new scheme are available from the Treasury internet site www.treasury.govt.nz.

Revised Guarantee

On 18 November 2009 the Crown announced that it will be changing the deposit guarantee scheme to make it more flexible for deposit taking institutions. Consequently the Crown will be withdrawing the Guarantee and offering participating institutions (including Westpac New Zealand) the opportunity to enter into a replacement guarantee deed (the '**Revised Deed**'), which will then come into effect on 1 January 2010. If an institution does not accept the Revised Deed then from 1 January 2010 new deposits will not be guaranteed but existing investments made prior to 1 January 2010 by eligible depositors will continue to benefit from the Guarantee and will not be affected by the changes. Westpac New Zealand has decided that it will enter into the Revised Deed. Further details are available from the Treasury internet site www.treasury.govt.nz.

New Zealand wholesale funding guarantee facility

On 1 November 2008 the New Zealand Government announced details of a wholesale funding guarantee facility to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations ('**Facility**'). The Facility operates on an opt-in basis, by institution and by instrument.

A qualifying institution may apply to be considered for the Facility and, if accepted, the New Zealand Government may enter into a Crown Wholesale Funding Guarantee Facility Deed with the institution. The New Zealand Government may also provide a Crown Wholesale Funding Guarantee (by deed) in respect of the institution, under which guarantees may be issued. The institution may then apply for a guarantee of new senior unsecured negotiable or transferable debt securities it proposes to issue, on an issue by issue basis (not all new issues need be covered). If the new security is accepted for coverage, then the guarantee is effected by the issue of a Guarantee Eligibility Certificate in respect of that security under the Crown Wholesale Funding Guarantee in respect of the institution.

A guarantee fee is charged for each guarantee issued under the Facility, differentiated by the credit rating of the issuer and the term of the security being guaranteed. The maximum term of securities guaranteed is five years. Further information about the Facility may be obtained from the Treasury internet site www.treasury.govt.nz.

As at the date this General Disclosure Statement is signed, the NZ Branch has taken no action in relation to the Facility. Westpac New Zealand has applied to be considered for the Facility, and its application has been accepted. The New Zealand Government has entered into a Crown Wholesale Funding Guarantee Facility Deed with Westpac New Zealand dated 23 February 2009 and has provided a Crown Wholesale Funding Guarantee in respect of Westpac New Zealand by deed dated 23 February 2009 ('**NZ Wholesale Guarantee**'). Copies of any Guarantee Eligibility Certificates issued in respect of obligations of Westpac New Zealand, which provide details of the obligations of Westpac New Zealand covered by the NZ Wholesale Guarantee, are available on the New Zealand Treasury internet site www.treasury.govt.nz.

Ranking of local creditors in liquidation

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

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

The Overseas Bank is an ADI for the purposes of the Australian Banking Act.

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

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

Section 13A of the Australian Banking Act affects all of the unsecured deposit liabilities of the NZ Branch which as at 30 September 2009 amounted to \$4,401 million (30 September 2008: \$4,421 million).

Section 13A(4) of the Australian Banking Act also provides that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. During the year ended 30 September 2009, the Overseas Bank has at all times held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

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

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

Pending proceedings or arbitration

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

The previously reported proceedings commenced by the New Zealand Commerce Commission and a group of retailers in relation to interchange fees and rules have been settled and the proceedings discontinued. The terms of settlement are confidential.

The New Zealand Inland Revenue Department ('NZIRD') reviewed a number of structured finance transactions undertaken in New Zealand. Following the review, the NZIRD issued amended assessments for the 1999 to 2005 tax years in relation to nine transactions undertaken between 1998 and 2002. On 7 October 2009 the New Zealand High Court found in favour of the NZIRD in relation to the NZ Banking Group's challenge to those amended assessments in respect of four representative transactions. The decision will apply to all transactions unless a party can show any material difference in the transactions not considered at trial. The NZ Banking Group has lodged an appeal against the decision to the New Zealand Court of Appeal.

A description of these proceedings and other contingent liabilities of the NZ Banking Group and the NZ Branch is set out in Note 33 to the 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 2009 Annual Financial Report.

Conditions of registration

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

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

For the purposes of these conditions of registration, the term '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.

Further information on the capital adequacy of the Overseas Bank is contained in Note 39 to the financial statements.

Non-compliance with condition of registration relating to New Zealand liabilities

The NZ Branch has not complied with condition 7 above at various times during the first nine months of the year ended 30 September 2009. The NZ Branch has been compliant with condition 7 during the last three months ended 30 September 2009. Total liabilities of the NZ Branch, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), have exceeded the \$15 billion limit in that condition on some occasions during the period.

The non-compliance was caused by falling New Zealand dollar exchange rates and interest rates, which increased the NZ Branch's liability under derivative financial instruments as positions were revalued. Affected derivative liabilities included liabilities under interest rate swaps and liabilities under cross currency swaps.

The NZ Branch notified the Reserve Bank upon becoming aware of this non-compliance and in consultation with the Reserve Bank, worked on steps to remedy the non-compliance.

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

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

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

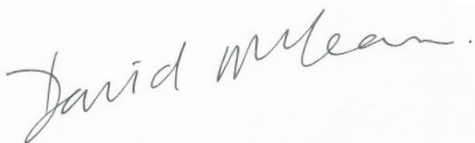
Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch believes, after due enquiry, that, over the year ended 30 September 2009:

- a. the NZ Branch has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 except as stated in (b) below;
- b. the NZ Branch did not comply with condition 7 of its conditions of registration, relating to the liabilities of the NZ Branch in New Zealand at various times during the first nine months of the year;
- c. except as stated in (d) below, the NZ Branch had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks and those systems were being properly applied; and
- d. the NZ Branch did not have systems in place to monitor and control adequately the NZ Branch's liabilities in New Zealand to ensure compliance with condition 7 of its conditions of registration during the first nine months of the year.

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



George Frazis



David McLean

Dated this the 3rd December 2009

Financial statements

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Income statements for the year ended 30 September 2009

	Note	NZ Banking Group		NZ Branch	
		Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Interest income	2	4,622	5,387	1,094	1,770
Interest expense	2	(3,142)	(4,049)	(814)	(1,596)
Net interest income		1,480	1,338	280	174
Non-interest income:					
Fees and commissions	3	354	361	43	43
Wealth management revenue	3	80	74	-	-
Trading income	3	152	112	152	112
Gain/(loss) on ineffective hedges	3	3	(5)	-	-
Share of net profit of associate	3	-	48	-	-
Other non-interest income	3	21	30	-	-
Total non-interest income		610	620	195	155
Net operating income		2,090	1,958	475	329
Operating expenses	4	(808)	(814)	(87)	(70)
Impairment charges on loans	6	(690)	(181)	(70)	(11)
Profit before income tax expense		592	963	318	248
Income tax expense on operating profit		(168)	(281)	(94)	(69)
Income tax expense on New Zealand structured finance transactions		(918)	-	(737)	-
Total income tax expense	7	(1,086)	(281)	(831)	(69)
(Loss)/profit after income tax expense		(494)	682	(513)	179
(Loss)/profit after income tax expense attributable to:					
Head office account and equity holders of NZ Banking Group		(497)	679	(513)	179
Minority interests		3	3	-	-
(Loss)/profit after income tax expense		(494)	682	(513)	179

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the year ended 30 September 2009

	Head Office Account		NZ Banking Group Equity					Minority Interests	Total
	Branch Capital	Retained Profits	Share Capital	Retained Profits	Cash Flow Hedge Reserve	Available-for-sale	Convertible Debentures		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
As at 1 October 2007	698	663	133	1,010	62	-	1,284	10	3,860
Effect of change in accounting policy									
Adjustment on recognition of actuarial gains on employee defined benefit superannuation plan (refer to Note 1.3)	-	-	-	19	-	-	-	-	19
Income tax effect	-	-	-	(6)	-	-	-	-	(6)
Total effect of change in accounting policy	-	-	-	13	-	-	-	-	13
Restated total equity as at 1 October 2007	698	663	133	1,023	62	-	1,284	10	3,873
Year ended 30 September 2008									
Net gains from changes in available-for-sale securities (net of tax)	-	-	-	-	-	16	-	-	16
Net losses from changes in fair value of cash flow hedges	-	-	-	-	(209)	-	-	-	(209)
Income tax effect	-	-	-	-	64	-	-	-	64
Transferred to income statement	-	-	-	-	(8)	-	-	-	(8)
Income tax effect	-	-	-	-	3	-	-	-	3
Profit after income tax expense	-	179	-	500	-	-	-	3	682
Total recognised income and expenses for the year ended 30 September 2008 as previously reported	-	179	-	500	(150)	16	-	3	548
Effect of change in accounting policy									
Adjustment on recognition of actuarial losses on employee defined benefit superannuation plans (refer to Note 1.3)	-	-	-	(49)	-	-	-	-	(49)
Income tax effect	-	-	-	16	-	-	-	-	16
Total effect of change in accounting policy	-	-	-	(33)	-	-	-	-	(33)
Restated total recognised income and expenses for the year ended 30 September 2008	-	179	-	467	(150)	16	-	3	515
Share capital issued ¹	-	-	1,300	-	-	-	-	-	1,300
Dividends paid or provided for on convertible debentures (net of tax)	-	(66)	-	-	-	-	-	-	(66)
Dividends paid or provided for on ordinary shares	-	-	-	(170)	-	-	-	(5)	(175)
Dividends paid or provided for on preference shares	-	-	-	(15)	-	-	-	-	(15)
Remittance to the Overseas Bank ¹	(698)	(602)	-	-	-	-	-	-	(1,300)
As at 30 September 2008	-	174	1,433	1,305	(88)	16	1,284	8	4,132

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

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity (continued) for the year ended 30 September 2009

	Head Office Account		NZ Banking Group Equity					Minority Interests \$m	Total \$m
	Branch Capital \$m	Accumulated Losses / Retained Profits \$m	Share Capital \$m	Retained Profits \$m	Cash Flow Hedge Reserve \$m	Available-for-sale \$m	Convertible Debentures \$m		
As at 1 October 2008	-	174	1,433	1,305	(88)	16	1,284	8	4,132
Year ended 30 September 2009									
Net gains from changes in available-for-sale securities (net of tax)	-	-	-	-	-	2	-	-	2
Net losses from changes in fair value of cash flow hedges	-	-	-	-	(107)	-	-	-	(107)
Income tax effect	-	-	-	-	32	-	-	-	32
Transferred to income statement	-	-	-	-	(3)	-	-	-	(3)
Income tax effect	-	-	-	-	1	-	-	-	1
Recognition of actuarial gains on employee defined benefit superannuation plans	-	-	-	30	-	-	-	-	30
Income tax effect	-	-	-	(11)	-	-	-	-	(11)
(Loss)/profit after income tax expense	-	(513)	-	16	-	-	-	3	(494)
Total recognised income and expenses for the year ended 30 September 2009	-	(513)	-	35	(77)	2	-	3	(550)
Share capital issued	-	-	9	-	-	-	-	-	9
Allocation of Branch Capital from the Overseas Bank ¹	1,800	-	-	-	-	-	-	-	1,800
Share capital redeemed ¹	-	-	(1,300)	-	-	-	-	-	(1,300)
Dividends paid or provided for on convertible debentures (net of tax)	-	(69)	-	-	-	-	-	-	(69)
Dividends paid or provided for on ordinary shares	-	-	-	(9)	-	-	-	(4)	(13)
Dividends paid or provided for on preference shares	-	-	-	(104)	-	-	-	-	(104)
Aggregation of new entities ²	-	-	301	-	-	-	-	-	301
Share capital buy-back ³	-	-	(301)	-	-	-	-	-	(301)
As at 30 September 2009	1,800	(408)	142	1,227	(165)	18	1,284	7	3,905

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

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

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

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity (continued) for the year ended 30 September 2009

	NZ Branch			
	Head Office Account		Convertible Debentures \$m	Total \$m
	Branch Capital \$m	Accumulated Losses / Retained Profits \$m		
As at 1 October 2007	698	663	1,284	2,645
Year ended 30 September 2008				
Profit after income tax expense	-	179	-	179
Total recognised income and expenses for the year ended 30 September 2008	-	179	-	179
Dividends paid or provided for on convertible debentures (net of tax)	-	(66)	-	(66)
Remittance to the Overseas Bank ¹	(698)	(602)	-	(1,300)
As at 30 September 2008	-	174	1,284	1,458
Year ended 30 September 2009				
Loss after income tax expense	-	(513)	-	(513)
Total recognised income and expenses for year ended 30 September 2009	-	(513)	-	(513)
Dividends paid or provided for on convertible debentures (net of tax)	-	(69)	-	(69)
Allocation of Branch Capital from the Overseas Bank ¹	1,800	-	-	1,800
As at 30 September 2009	1,800	(408)	1,284	2,676

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

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 30 September 2009

	Note	NZ Banking Group		NZ Branch	
		2009 \$m	2008 \$m	2009 \$m	2008 \$m
Assets					
Cash and balances with central banks		798	1,286	584	1,174
Due from other financial institutions	9	843	1,222	841	558
Derivative financial instruments	30	6,328	5,137	6,306	5,125
Other trading securities	10	5,405	3,527	984	1,554
Available-for-sale securities	11	37	35	-	-
Loans	12	55,592	55,569	7,583	8,894
Life insurance assets		113	89	-	-
Due from related entities		2,759	2,170	8,595	7,787
Investment in associate	29	48	48	-	-
Goodwill and other intangible assets	15	623	627	-	-
Property, plant and equipment	16	94	78	-	-
Current tax assets		-	28	-	67
Deferred tax assets	17	306	164	40	-
Other assets	18	498	902	357	683
Total assets		73,444	70,882	25,290	25,842
Liabilities					
Due to other financial institutions	19	485	297	485	297
Deposits at fair value	20	3,468	4,163	-	-
Deposits at amortised cost	20	32,944	32,188	3,916	4,124
Derivative financial instruments	30	6,970	4,602	6,970	4,602
Other trading liabilities at fair value	21	2,698	1,101	813	1,101
Debt issues	22	12,369	11,102	-	-
Current tax liabilities		373	-	234	-
Deferred tax liabilities	23	-	-	-	6
Provisions	24	106	81	28	13
Other liabilities	25	663	1,111	122	405
Total liabilities excluding subordinated debentures and due to related entities		60,076	54,645	12,568	10,548
Subordinated debentures	26	790	798	790	798
Total liabilities excluding due to related entities		60,866	55,443	13,358	11,346
Due to related entities		8,673	11,307	9,256	13,038
Total liabilities excluding head office account		69,539	66,750	22,614	24,384
Net assets		3,905	4,132	2,676	1,458
<i>Represented by:</i>					
Head office account					
Branch capital		1,800	-	1,800	-
(Accumulated losses)/retained profits		(408)	174	(408)	174
Total head office account		1,392	174	1,392	174
NZ Banking Group equity					
Ordinary share capital		142	133	-	-
Preference share capital		-	1,300	-	-
Retained profits		1,227	1,305	-	-
Available-for-sale securities reserve		18	16	-	-
Cash flow hedge reserve		(165)	(88)	-	-
Convertible debentures	28	1,284	1,284	1,284	1,284
Total NZ Banking Group equity		2,506	3,950	1,284	1,284
Minority interests		7	8	-	-
Total head office account and equity		3,905	4,132	2,676	1,458

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the year ended 30 September 2009

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009	Year ended 30 September 2008	Year ended 30 September 2009	Year ended 30 September 2008
	\$m	\$m	\$m	\$m
Cash flows from operating activities				
Interest income received	4,701	5,381	1,129	1,362
Interest paid	(3,314)	(4,020)	(821)	(1,191)
Other non-interest income received	617	563	195	155
Net (acquisition)/disposal of other trading securities	(2,019)	318	430	(93)
Net acquisition/(disposal) of other trading liabilities	1,552	1,078	(333)	1,078
Net acquisition/(disposal) of derivative financial instruments	1,067	(1,092)	1,187	(887)
Operating expenses	(721)	(677)	(70)	(77)
Income tax paid	(246)	(203)	(56)	(39)
Net cash provided by operating activities	1,637	1,348	1,661	308
Cash flows from investing activities				
Net decrease/(increase) in due from other financial institutions – term	1,028	(495)	364	(364)
Net disposal of available-for-sale securities	-	29	-	-
Net loans advanced to customers	(713)	(5,393)	1,241	(1,322)
Net acquisition of life insurance assets	(24)	(8)	-	-
Net (increase)/decrease in due from related entities	(589)	89	(808)	115
Net increase in other assets	(69)	(13)	(107)	(14)
Purchase of capitalised computer software	(44)	(38)	-	-
Purchase of property, plant and equipment	(39)	(21)	-	-
Proceeds from disposal of property, plant and equipment	5	-	-	-
Net cash (used in)/provided by investing activities	(445)	(5,850)	690	(1,585)
Cash flows from financing activities				
Redemption of Fixed Interest Resetable Trust Securities	-	(730)	-	(730)
(Redemption)/issue of preference share capital	(1,300)	1,300	-	-
Net decrease in due to other financial institutions – term	-	(7)	-	-
Net increase/(decrease) in deposits	61	2,786	(208)	(30)
Net proceeds/(redemption) from debt issues	1,267	(1,326)	-	-
Net (decrease)/increase in due to related entities	(2,637)	4,308	(3,734)	3,718
Net (decrease)/increase in other liabilities and subordinated debentures	(203)	361	(241)	312
Payment of dividends on convertible debentures	(99)	(99)	(99)	(99)
Payment of dividends on ordinary shares	(4)	(175)	-	-
Payment of dividends on preference shares	(104)	(15)	-	-
Branch capital received from the Overseas Bank	1,800	-	1,800	-
Remittance to the Overseas Bank	-	(1,300)	-	(1,300)
Net cash (used in)/provided by financing activities	(1,219)	5,103	(2,482)	1,871
Net (decrease)/increase in cash and cash equivalents	(27)	601	(131)	594
Cash and cash equivalents at beginning of the year	1,183	582	1,071	477
Cash and cash equivalents at end of the year	1,156	1,183	940	1,071
Cash and cash equivalents comprise:				
Cash and balances with central banks	798	1,286	584	1,174
Due from/(to) other financial institutions – at call	358	(103)	356	(103)
Cash and cash equivalents at end of the year	1,156	1,183	940	1,071

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows (continued) for the year ended 30 September 2009

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009	Year ended 30 September 2008	Year ended 30 September 2009	Year ended 30 September 2008
	\$m	\$m	\$m	\$m
Reconciliation of (loss)/profit after income tax expense to net cash flows from operating activities				
(Loss)/profit after income tax expense	(494)	682	(513)	179
<i>Adjustments:</i>				
Software amortisation costs	45	49	-	-
Impairment on goodwill	-	22	-	-
Impairment charges on intangible assets	3	13	-	-
Impairment charges on property, plant and equipment	-	8	-	-
Impairment charges on loans	690	181	70	11
Depreciation	21	24	-	-
Gain on disposal of property, plant and equipment	(3)	-	-	-
Share of net profit of associate	-	(48)	-	-
Share-based payments	3	5	-	-
Movement in accrued assets	614	(11)	573	(2)
Movement in accrued liabilities	(164)	73	10	22
Movement in income tax provisions and deferred tax	259	(54)	207	(33)
Tax on convertible debentures dividends	30	33	30	33
Net (acquisition)/disposal of other trading securities	(2,019)	318	430	(93)
Net acquisition/(disposal) of other trading liabilities	1,552	1,078	(333)	1,078
Net acquisition/(disposal) of derivative financial instruments	1,067	(1,092)	1,187	(887)
Tax effect of change in cash flow hedge reserve	33	67	-	-
Net cash provided by operating activities	1,637	1,348	1,661	308

The accompanying notes (numbered 1 to 48) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

1.1 General accounting policies

Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993, the Order and the Reserve Bank of New Zealand Act 1989.

These financial statements have also been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements comply with International Financial Reporting Standards ('**IFRS**'). Compliance with NZ IFRS ensures that the financial report of the NZ Banking Group and the NZ Branch comprising the financial statements and accompanying notes complies with IFRS and interpretations issued by the International Accounting Standards Board.

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

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

These financial statements were authorised for issue by the Board on 3 December 2009. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies have been followed in preparing these financial statements that were used in preparing the financial statements for the year ended 30 September 2008 except as disclosed in Note 1.3 below.

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

Basis of aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Branch, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, St.George New Zealand Limited, St.George Financial Investments New Zealand Limited and the consolidated capital and reserves of Westpac New Zealand Group Limited, Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited, Westpac NZ Funding 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.

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

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

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

Foreign currency

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

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

Note 1 Statement of accounting policies (continued)

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments, measured at amortised cost, or those classified as available-for-sale securities is recognised in the income statement using the effective interest method. Interest income for instruments measured at fair value through profit or loss is also recognised using the effective interest method.

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

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

Fee and commission income

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

Trading income

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

Gain or loss on sale of property, plant and equipment

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

Expense recognition

Interest expense

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

Losses on loans and receivables carried at amortised cost

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

Leasing

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

Commissions and other fees

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

Share-based compensation – options and performance share rights

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

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

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

Note 1 Statement of accounting policies (continued)

Taxation

Income tax

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

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

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

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

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

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

Goods and services tax

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

Acquisition of assets

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

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

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

Assets

Financial assets

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

Financial assets at fair value through profit or loss

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

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

Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, or loans.

Loans

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

Recognition of financial assets

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

Note 1 Statement of accounting policies (continued)

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the NZ Banking Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Cash and balances with central banks

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

Due from other financial institutions

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

Derivative financial instruments

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

Other trading securities

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

Other financial assets designated at fair value

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

Available-for-sale securities

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

Loans

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

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

Impairment of financial assets

Impaired financial assets include:

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

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

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

Assets carried at amortised cost

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

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments;

Note 1 Statement of accounting policies (continued)

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

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

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

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

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

Assets carried at fair value

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

Investments in related entities including associates

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

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

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

Note 1 Statement of accounting policies (continued)

Life insurance assets

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

Goodwill and other intangible assets

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

All goodwill is considered to have an indefinite life.

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

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

Goodwill was last tested for impairment as at 30 September 2009.

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

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

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

Property, plant and equipment

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

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

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

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

Impairment of non-financial assets

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

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

Note 1 Statement of accounting policies (continued)

Liabilities

Financial liabilities

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

Due to other financial institutions

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

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

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

Other trading liabilities and other financial liabilities at fair value

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

Debt issues

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

Life insurance policy liabilities

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

Subordinated debentures

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

Employee entitlements

Wages and salaries, annual leave and sick leave

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

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

Long service leave

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

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

Superannuation obligations

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

Note 1 Statement of accounting policies (continued)

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

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

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

Termination benefits

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

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

Provisions

Provision for restructuring

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

Head office account and equity

Ordinary shares

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

Head office account – Branch capital

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

Convertible debentures

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

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as Other income when the asset is either derecognised or impaired. Foreign exchange gains and losses on non-monetary assets are also included in the available-for-sale securities reserve.

Cash flow hedge reserve

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

Hedging

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

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

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

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

Note 1 Statement of accounting policies (continued)

Fair value hedge

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

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

Cash flow hedge

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

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

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

Embedded derivatives

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

Loan securitisation

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

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

Funds management activities

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

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

Leases

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

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

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

Offsetting

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

Segment reporting

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

Note 1 Statement of accounting policies (continued)

Statement of cash flows

Basis of presentation

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

Cash and cash equivalents

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

1.3 Change in accounting policies

In the year ended 30 September 2009, the NZ Banking Group changed its accounting policy for actuarial gains and losses on its employee defined benefit superannuation plans. The revised policy brings to account all actuarial gains/losses outside of the profit and loss directly in the statement of changes in equity. The NZ Banking Group has adopted this change in accounting policy so that the full surplus or deficit as calculated in accordance with NZ IAS 19 *Employee Benefits*, is recognised on the balance sheet. Previously the NZ Banking Group applied the corridor approach.

The new policies have been applied retrospectively for the NZ Banking Group and comparative information in relation to the 2008 and 2007 financial years have been restated accordingly. The following cumulative adjustments were made as at 30 September 2008 and 30 September 2007.

	NZ Banking Group			NZ Banking Group		
	Previously Reported 30 September 2008 \$m	Increase/ (Decrease) \$m	Restated 30 September 2008 \$m	Previously Reported 30 September 2007 \$m	Increase/ (Decrease) \$m	Restated 30 September 2007 \$m
Balance sheet (extract)						
Deferred tax assets	154	10	164	92	(6)	86
Other liabilities	1,081	30	1,111	707	(19)	688
Net assets	4,152	(20)	4,132	3,860	13	3,873
Retained profits	1,499	(20)	1,479	1,673	13	1,686
Total equity	4,152	(20)	4,132	3,860	13	3,873

1.4 Future accounting developments

The following new standards and interpretations have been issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants, but are not yet effective and have not been early adopted by the NZ Banking Group:

- NZ IFRS 8 *Operating Segments* was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and will apply to the NZ Banking Group from 1 October 2009. NZ IFRS 8 will impact the financial and descriptive information about reportable segments, but will not impact the NZ Banking Group's reported results or financial position.
- A revised NZ IFRS 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* were issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants in February 2008. The revisions to the standards apply prospectively to business combinations and will be effective for the 30 September 2010 financial year end. The main changes under the standards are that:
 - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
 - earn-outs and contingent considerations will be measured at fair value at the acquisition date; however, remeasurement in the future will be recognised in the income statement;
 - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
 - while control is retained, transactions with minority interests would be treated as equity transactions.
- NZ IAS 1 *Presentation of Financial Statements* is a revised standard applicable to annual reporting periods beginning on or after 1 January 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- Amendments to NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 1 were approved in November 2007 and require some puttable financial instruments and some financial instruments which impose on the entity an obligation to deliver to another party a pro rata share of net assets only on liquidation to be classified as equity. The amendment is applicable to the NZ Banking Group from 1 October 2009 and is not expected to have a material impact.
- Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*, approved in March 2009, require additional disclosures on fair value and liquidity risk. The amendments are applicable to the NZ Banking Group from 1 October 2009.

Note 1 Statement of accounting policies (continued)

1.5 Critical accounting assumptions and estimates

Critical accounting estimates

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

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

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

Fair value of financial instruments

Financial instruments classified as held for trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

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

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation technique, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, profits or losses are recognised upon initial recognition only when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs. In the event that inputs into valuation techniques are non-market observable, any day one profit or loss is amortised over the life of the transaction.

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

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

The fair value of financial instruments is provided in Note 32.

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

Provisions for impairment on loans

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

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

- (i) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the NZ Banking Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the NZ Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgements are made in this process. Furthermore, judgements can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.
- (ii) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan losses that have been incurred, but have not been separately identified as at the balance date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence period. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

Note 1 Statement of accounting policies (continued)

Goodwill

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

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

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

Superannuation obligations

The NZ Banking Group operates a defined benefit plan as described in Note 35. For this plan, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed annually in accordance with the requirements of NZ IAS 19 *Employee Benefits*.

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

Provisions (other than loan impairment losses)

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

Income taxes

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

Note 2 Net interest income

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Interest income				
Loans	4,313	4,976	508	757
Deposits with other financial institutions	57	105	44	99
Impaired assets	29	18	-	-
Related entities	-	-	466	769
Other trading securities	223	242	76	101
Other	-	46	-	44
Total interest income	4,622	5,387	1,094	1,770
Interest expense				
Current and term deposits	1,611	2,502	174	296
Deposits from other financial institutions	31	36	31	36
Debt issues	344	571	-	-
Related entities	830	388	458	714
Subordinated debentures	47	52	47	52
Other trading liabilities at fair value	214	478	61	469
Other	65	22	43	29
Total interest expense	3,142	4,049	814	1,596
Net interest income	1,480	1,338	280	174

For the year ended 30 September 2009, the NZ Banking Group has no material loans and deposits that were subject to set-off agreements (30 September 2008: nil).

Note 3 Non-interest income

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Fees and commissions				
Lending fees (loan and risk)	95	96	8	7
Transaction fees and commissions	243	250	22	24
Management fees received from related entities	-	2	-	-
Other non-risk fee income	16	13	13	12
Total fees and commissions	354	361	43	43
Wealth management operating income				
Fees from trust and other fiduciary activities	111	101	-	-
Net life insurance income and change in policy liabilities	(31)	(27)	-	-
Total wealth management operating income	80	74	-	-
Trading income				
Foreign exchange	91	71	91	71
Other trading	61	41	61	41
Total trading income	152	112	152	112
Gain/(loss) on ineffective hedges	3	(5)	-	-
Share of net profit of associate	-	48	-	-
Other non-interest income				
Dividend income	2	1	-	-
Rental income	1	1	-	-
Gain on disposal of property, plant and equipment	3	-	-	-
General insurance commissions	6	4	-	-
Derivatives held for risk management purposes	9	24	-	-
Total other non-interest income	21	30	-	-
Total non-interest income	610	620	195	155

Notes to the financial statements

Note 4 Operating expenses

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009	Year ended 30 September 2008	Year ended 30 September 2009	Year ended 30 September 2008
	\$m	\$m	\$m	\$m
Salaries and other staff expenses				
Salaries and wages	342	326	37	29
Employee entitlements	10	9	-	-
Superannuation costs:				
Defined contribution scheme	22	21	2	2
Defined benefit scheme	1	-	-	-
Share-based payments	3	5	-	-
Restructuring costs	1	6	-	-
Other	12	9	-	-
Total salaries and other staff expenses	391	376	39	31
Equipment and occupancy expenses				
Operating lease rentals:				
Other	54	52	1	-
Depreciation:				
Leasehold improvements	9	10	-	-
Furniture and equipment	12	14	-	-
Equipment repairs and maintenance	8	5	-	-
Electricity, water and rates	3	2	-	-
Other	12	6	-	-
Total equipment and occupancy expenses	98	89	1	-
Other expenses				
Impairment charges on goodwill	-	22	-	-
Impairment charges on other intangible assets	3	13	-	-
Impairment charges on property, plant and equipment	-	8	-	-
Software amortisation costs	45	49	-	-
Non-lending losses	3	3	1	-
Consultancy fees and other professional services	82	63	18	11
Auditors' remuneration (refer to Note 5)	2	3	1	1
Stationery	12	13	-	-
Postage and freight	17	17	1	1
Telecommunication costs	1	1	1	1
Advertising	25	28	-	-
Training	6	3	-	-
Travel	7	8	1	2
Outsourcing	79	78	1	2
Related entities	22	24	18	17
Other	15	16	5	4
Total other expenses	319	349	47	39
Total operating expenses	808	814	87	70

The NZ Banking Group made donations of \$75,000 during the year ended 30 September 2009 (30 September 2008: \$144,000).

Note 5 Auditors' remuneration

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009	Year ended 30 September 2008	Year ended 30 September 2009	Year ended 30 September 2008
	\$'000	\$'000	\$'000	\$'000
Auditor of the parent entity				
Audit services	1,915	1,902	580	597
Other services:				
Further assurance services	359	472	155	155
Tax services	42	114	21	88
Total remuneration for audit and non-audit services	2,316	2,488	756	840

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

Note 6 Impairment on loans

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

	NZ Banking Group				NZ Branch			
	Year ended 30 September 2008				Year ended 30 September 2008			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Collectively assessed provision	10	12	52	74	-	-	13	13
Individually assessed provisions	23	-	42	65	-	-	-	-
Bad debt write off direct to the income statement	2	55	6	63	-	-	-	-
Interest adjustments	(2)	(8)	(11)	(21)	-	-	(2)	(2)
Total impairment charges on loans	33	59	89	181	-	-	11	11

Notes to the financial statements

Note 7 Income tax expense

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Income tax expense				
Current tax:				
Current year				
– On operating profit	257	305	115	62
– Income tax expense on New Zealand structured finance transactions ¹	586	-	460	-
– Interest costs on New Zealand structured finance transactions ^{1,2}	332	-	277	-
Prior year	3	(18)	-	(2)
Deferred tax (refer to Notes 17 and 23):				
Current year	(88)	(23)	(19)	10
Prior year	(4)	12	(2)	(2)
Change to corporate tax rate ³	-	5	-	1
Total income tax expense	1,086	281	831	69
Profit before income tax expense	592	963	318	248
Tax calculated at tax rate of 30% (30 September 2008: 33%)	178	318	95	82
Income not subject to tax	(9)	(18)	-	-
Expenses not deductible for tax purposes	1	3	1	1
Income tax expense on New Zealand structured finance transactions ¹	586	-	460	-
Interest costs on New Zealand structured finance transactions ^{1,2}	332	-	277	-
Change to corporate tax rate ³	-	5	-	1
Prior year adjustments	(1)	(6)	(2)	(4)
Other items	(1)	(21)	-	(11)
Total income tax expense	1,086	281	831	69

¹ Refer to Note 33 in relation to the judgement handed down in October 2009 by the New Zealand High Court in connection with the New Zealand structured finance transactions.

² Income tax expense includes interest expense of approximately \$273 million (net of tax) for the NZ Banking Group and \$218 million (net of tax) for the NZ Branch in respect of amended tax assessments issued by the NZIRD and a provision raised against accrued interest income of approximately \$59 million (net of tax) for both the NZ Banking Group and the NZ Branch on tax prepayments of \$442 million in relation to the amended assessments.

³ The corporate tax rate in New Zealand has reduced from 33% to 30% from the beginning of the current income tax year (2008/2009). The reduced income tax rate is therefore reflected in the current tax liability balance for the current income tax period.

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

Note 8 Imputation credit account

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Balance at beginning of the year	1,007	842	289	265
Transfers	-	-	(56)	-
Imputation credits attached to dividends received during the year	4	28	-	-
Imputation credits attached to dividends paid during the year	(31)	(61)	-	-
Income tax payments during the year	226	203	56	39
Other changes during the year	-	(5)	-	(15)
Balance at end of the year	1,206	1,007	289	289

The availability of these imputation credits is contingent on the Overseas Bank meeting the shareholder continuity rules. As a result of the merger with St. George Bank Limited and its subsidiaries during the period, it is possible that credits of approximately \$850 million for the NZ Banking Group (including \$234 million for the NZ Branch) have been forfeited. The NZ Banking Group is currently in discussions with the NZIRD concerning this issue. If the credits are forfeited there should be no financial impact on the NZ Banking Group.

Note 9 Due from other financial institutions

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Loans and advances to other banks	843	1,222	841	558
Total due from other financial institutions	843	1,222	841	558
Due from other financial institutions:				
At call	843	194	841	194
Term	-	1,028	-	364
Total due from other financial institutions	843	1,222	841	558

Note 10 Other trading securities and other financial assets designated at fair value

	NZ Banking Group		NZ Branch	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Other trading securities				
Trading securities	4,914	3,146	493	1,173
Securities purchased under agreement to resell	491	381	491	381
Total other trading securities	5,405	3,527	984	1,554
Trading securities				
Listed				
NZ Government securities	2,669	155	300	155
NZ corporate securities	4	53	4	53
Other	2	58	2	58
Total listed trading securities	2,675	266	306	266
Unlisted				
NZ corporate securities:				
Certificates of deposit	2,181	2,851	129	878
Corporate bonds	50	-	50	-
Commercial paper	8	29	8	29
Total unlisted trading securities	2,239	2,880	187	907
Total trading securities	4,914	3,146	493	1,173

As at 30 September 2009, the NZ Banking Group and the NZ Branch had \$395 million and \$395 million (30 September 2008: \$893 million and \$893 million) of trading securities that were encumbered through repurchase agreements respectively.

Note 11 Available-for-sale securities

	NZ Banking Group		NZ Branch	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Listed securities				
Overseas public securities	37	35	-	-
Total available-for-sale securities	37	35	-	-

As at 30 September 2009, there were no available-for-sale securities pledged as collateral for the NZ Banking Group's liabilities (30 September 2008: nil). The movement in available-for-sale securities may be summarised as follows:

	NZ Banking Group		NZ Branch	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Balance at beginning of the year	35	-	-	-
Additions	-	109	-	-
Disposals (sale and redemption)	-	(90)	-	-
Gains from changes in fair value	2	16	-	-
Balance at end of the year	37	35	-	-

Note 12 Loans

	NZ Banking Group		NZ Branch	
	2009	2008	2009	2008
	\$m	\$m	\$m	\$m
Overdrafts	1,369	1,496	312	356
Credit card outstandings	1,182	1,149	-	-
Money market loans	1,106	1,601	532	1,006
Term loans:				
Housing	32,364	31,230	-	-
Non-housing	19,235	19,597	6,252	6,995
Other	947	821	578	563
Total gross loans	56,203	55,894	7,674	8,920
Provisions for impairment charges on loans	(611)	(325)	(91)	(26)
Total net loans	55,592	55,569	7,583	8,894

During the current reporting period, the NZ Banking Group has undertaken repurchase agreements with the Reserve Bank using residential mortgage-backed securities. The repurchase cash amount at 30 September 2009 is \$1,814 million (30 September 2008: nil), with underlying securities to the value of \$2,253 million (30 September 2008: nil) provided under this arrangement.

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

Note 13 Impaired assets

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009	Year ended 30 September 2008	Year ended 30 September 2009	Year ended 30 September 2008
	\$m	\$m	\$m	\$m
Individually impaired assets				
Balance at beginning of the year	278	112	-	-
Movement for the year	397	166	5	-
Balance at end of the year	675	278	5	-
Undrawn balance	-	-	-	-
Interest forgone for the year on the above impaired assets²	-	-	-	-
Restructured assets				
Balance at beginning of the year	-	2	-	-
Movement for the year	1	(2)	-	-
Balance at end of the year	1	-	-	-
Undrawn balance	-	-	-	-
Interest forgone for the year on the above restructured assets²	-	-	-	-
Past due assets 1 to 89 days¹				
Balance at beginning of the year	2,395	3,275	256	-
Movement for the year	(988)	(880)	(252)	256
Balance at end of the year	1,407	2,395	4	256
Past due assets 90+ days¹				
Balance at beginning of the year	222	126	1	-
Movement for the year	124	96	(1)	1
Balance at end of the year	346	222	-	1
Undrawn balance	-	-	-	-
Interest forgone for the year on the above past due assets²	-	-	-	-
Other assets under administration¹				
Balance at beginning of the year	-	-	-	-
Movement for the year	-	-	-	-
Balance at end of the year	-	-	-	-
Undrawn balance	-	-	-	-
Individually assessed provisions				
Balance at beginning of the year	66	26	-	-
Impairment charges on loans:				
New provisions	435	86	1	-
Recoveries	(21)	(21)	-	-
Impairment charges on loans written off	(328)	(25)	-	-
Balance at end of the year	152	66	1	-
Collectively assessed provisions				
Balance at beginning of the year	287	213	32	19
Movement for the year	223	74	75	13
Balance at end of the year	510	287	107	32
Total impairment provisions	662	353	108	32
Provisions for impairment on loans (refer to Note 12)	611	325	91	26
Provisions for impairment on off-balance sheet credit exposures (refer to Note 24)	51	28	17	6
Total impairment provisions	662	353	108	32

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

² The NZ Banking Group's policy is to not forgo interest on impaired assets.

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

Comparative numbers for the NZ Banking Group's past due assets 1-89 days and 90+ days have been restated as a result of continuing analysis of the NZ Banking Group's credit data. The above table is further analysed by class in the following tables.

Note 13 Impaired assets (continued)

Residential mortgages

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Individually impaired assets				
Balance at beginning of the year	190	74	-	-
Additions	486	258	-	-
Amounts written off	(64)	(12)	-	-
Returned to performing or repaid	(261)	(130)	-	-
Balance at end of the year	351	190	-	-
Undrawn balance	-	-	-	-
Past due assets 1 to 89 days¹				
Balance at beginning of the year	1,394	2,559	-	-
Additions	6,947	7,971	-	-
Deletions	(7,491)	(9,136)	-	-
Balance at end of the year	850	1,394	-	-
Past due assets 90+ days¹				
Balance at beginning of the year	75	37	-	-
Additions	361	248	-	-
Deletions	(348)	(210)	-	-
Balance at end of the year	88	75	-	-
Undrawn balance	-	-	-	-
Individually assessed provisions				
Balance at beginning of the year	24	15	-	-
Impairment charges on loans:				
New provisions	102	34	-	-
Recoveries	(16)	(11)	-	-
Impairment charges on loans written off	(44)	(14)	-	-
Balance at end of the year	66	24	-	-
Collectively assessed provisions				
Balance at beginning of the year	30	20	-	-
Impairment charges on loans	12	10	-	-
Balance at end of the year	42	30	-	-
Total impairment provisions	108	54	-	-
Provisions for impairment on loans	108	54	-	-
Provisions for impairment on off-balance sheet credit exposures	-	-	-	-
Total impairment provisions	108	54	-	-

¹ Past due assets are not impaired assets.

Comparative numbers for the NZ Banking Group's past due assets 1-89 days and 90+ days have been restated as a result of continuing analysis of the NZ Banking Group's credit data.

Note 13 Impaired assets (continued)

Other loans for consumer purposes

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Past due assets 1 to 89 days¹				
Balance at beginning of the year	156	160	-	-
Additions	865	993	-	-
Deletions	(890)	(997)	-	-
Balance at end of the year	131	156	-	-
Past due assets 90+ days¹				
Balance at beginning of the year	25	16	-	-
Additions	94	76	-	-
Deletions	(93)	(67)	-	-
Balance at end of the year	26	25	-	-
Undrawn balance	-	-	-	-
Collectively assessed provisions				
Balance at beginning of the year	61	49	-	-
Impairment charges on loans	(1)	12	-	-
Balance at end of the year	60	61	-	-
Total impairment provisions	60	61	-	-
Provisions for impairment on loans	60	61	-	-
Provisions for impairment on off-balance sheet credit exposures	-	-	-	-
Total impairment provisions	60	61	-	-

¹ Past due assets are not impaired assets.

Comparative numbers for the NZ Banking Group's past due assets 1-89 days and 90+ days have been restated as a result of continuing analysis of the NZ Banking Group's credit data.

Note 13 Impaired assets (continued)

Loans for business purposes

	NZ Banking Group		NZ Branch	
	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m	Year ended 30 September 2009 \$m	Year ended 30 September 2008 \$m
Individually impaired assets				
Balance at beginning of the year	88	38	-	-
Additions	606	90	5	-
Amounts written off	(290)	(28)	-	-
Returned to performing or repaid	(80)	(12)	-	-
Balance at end of the year	324	88	5	-
Undrawn balance	-	-	-	-
Restructured assets				
Balance at beginning of the year	-	2	-	-
Additions	1	-	-	-
Deletions	-	(2)	-	-
Balance at end of the year	1	-	-	-
Undrawn balance	-	-	-	-
Past due assets 1 to 89 days¹				
Balance at beginning of the year	845	556	256	-
Additions	3,708	4,113	4	256
Deletions	(4,127)	(3,824)	(256)	-
Balance at end of the year	426	845	4	256
Past due assets 90+ days¹				
Balance at beginning of the year	122	73	1	-
Additions	560	303	-	1
Deletions	(450)	(254)	(1)	-
Balance at end of the year	232	122	-	1
Undrawn balance	-	-	-	-
Individually assessed provisions				
Balance at beginning of the year	42	11	-	-
Impairment charges on loans:				
New provisions	333	52	1	-
Recoveries	(5)	(10)	-	-
Impairment charges on loans written off	(284)	(11)	-	-
Balance at end of the year	86	42	1	-
Collectively assessed provisions				
Balance at beginning of the year	196	144	32	19
Impairment charges on loans	212	52	75	13
Balance at end of the year	408	196	107	32
Total impairment provisions	494	238	108	32
Provisions for impairment on loans	443	210	91	26
Provisions for impairment on off-balance sheet credit exposures	51	28	17	6
Total impairment provisions	494	238	108	32

¹ Past due assets are not impaired assets.

Comparative numbers for the NZ Banking Group's past due assets 1-89 days and 90+ days have been restated as a result of continuing analysis of the NZ Banking Group's credit data.

Notes to the financial statements

Note 14 Credit quality

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

Analysis by class

	NZ Banking Group					
	2009					
	Neither Past Due nor Impaired \$m	Past Due but not Impaired \$m	Impaired and Restructured \$m	Total \$m	Impairment Allowance \$m	Total Carrying Value \$m
Residential mortgages	31,075	938	351	32,364	(108)	32,256
Other loans for consumer purposes	1,487	157	-	1,644	(60)	1,584
Loans for business purposes	21,212	658	325	22,195	(443)	21,752
Total	53,774	1,753	676	56,203	(611)	55,592

	NZ Banking Group					
	2008					
	Neither Past Due nor Impaired \$m	Past Due but not Impaired \$m	Impaired and Restructured \$m	Total \$m	Impairment Allowance \$m	Total Carrying Value \$m
Residential mortgages	29,571	1,469	190	31,230	(54)	31,176
Other loans for consumer purposes	1,479	181	-	1,660	(61)	1,599
Loans for business purposes	21,949	967	88	23,004	(210)	22,794
Total	52,999	2,617	278	55,894	(325)	55,569

	NZ Branch					
	2009					
	Neither Past Due nor Impaired \$m	Past Due but not Impaired \$m	Impaired and Restructured \$m	Total \$m	Impairment Allowance \$m	Total Carrying Value \$m
Residential mortgages	-	-	-	-	-	-
Other loans for consumer purposes	-	-	-	-	-	-
Loans for business purposes	7,665	4	5	7,674	(91)	7,583
Total	7,665	4	5	7,674	(91)	7,583

	NZ Branch					
	2008					
	Neither Past Due nor Impaired \$m	Past Due but not Impaired \$m	Impaired and Restructured \$m	Total \$m	Impairment Allowance \$m	Total Carrying Value \$m
Residential mortgages	-	-	-	-	-	-
Other loans for consumer purposes	-	-	-	-	-	-
Loans for business purposes	8,663	257	-	8,920	(26)	8,894
Total	8,663	257	-	8,920	(26)	8,894

Comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the NZ Banking Group's credit data.

Analysis by investment grade

	NZ Banking Group				NZ Branch			
	2009				2009			
	Strong \$m	Good/Satisfactory \$m	Weak \$m	Total \$m	Strong \$m	Good/Satisfactory \$m	Weak \$m	Total \$m
Residential mortgages	-	31,075	-	31,075	-	-	-	-
Other loans for consumer purposes	-	1,487	-	1,487	-	-	-	-
Loans for business purposes	8,850	10,062	2,300	21,212	6,390	884	391	7,665
Total	8,850	42,624	2,300	53,774	6,390	884	391	7,665
	NZ Banking Group				NZ Branch			
	2008				2008			
	Strong \$m	Good/Satisfactory \$m	Weak \$m	Total \$m	Strong \$m	Good/Satisfactory \$m	Weak \$m	Total \$m
Residential mortgages	-	29,571	-	29,571	-	-	-	-
Other loans for consumer purposes	-	1,479	-	1,479	-	-	-	-
Loans for business purposes	8,908	12,401	640	21,949	7,173	1,343	147	8,663
Total	8,908	43,451	640	52,999	7,173	1,343	147	8,663

The above analysis excludes past due and impaired assets.

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

Comparative numbers for the NZ Banking Group have been restated as a result of continuing analysis of the NZ Banking Group's credit data.

Note 15 Goodwill and other intangible assets

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Goodwill				
Cost	547	547	-	-
Accumulated impairment	(22)	(22)	-	-
Net carrying amount of goodwill	525	525	-	-
Computer software				
Cost	239	255	2	2
Accumulated amortisation and impairment losses	(141)	(153)	(2)	(2)
Net carrying amount of computer software	98	102	-	-
Total goodwill and other intangible assets	623	627	-	-

	NZ Banking Group			NZ Branch		
	Goodwill	Computer Software	Total	Goodwill	Computer Software	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Balance as at 1 October 2008	525	102	627	-	-	-
Additions	-	44	44	-	-	-
Amortisation	-	(45)	(45)	-	-	-
Impairment charges	-	(3)	(3)	-	-	-
Net carrying amount as at 30 September 2009	525	98	623	-	-	-
Balance as at 1 October 2007	547	126	673	-	-	-
Additions	-	38	38	-	-	-
Amortisation	-	(49)	(49)	-	-	-
Impairment charges	(22)	(13)	(35)	-	-	-
Net carrying amount as at 30 September 2008	525	102	627	-	-	-

Goodwill disclosure for Westpac New Zealand and BT Funds Management (NZ) Limited

Goodwill is allocated to and tested at least annually for impairment as a part of identified CGUs. The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations use discounted cash flow projections based on approved two (2008: three) year strategic business plans. While the strategic business plan assumes certain economic conditions, the forecast is not reliant on one particular assumption. These business forecasts applied by management are considered appropriate as they are based on past experience and are consistent with observable current market information. The growth rates after 2011 are assumed to be zero for all CGUs for the purpose of goodwill impairment testing.

The discount rate used is the before tax equivalent of the NZ Banking Group's cost of capital of 15.7% (30 September 2008: 15.7%).

Goodwill has been allocated to the following CGUs:

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Westpac New Zealand	512	512	-	-
BT Funds Management (NZ) Limited	13	13	-	-
Net carrying amount of goodwill	525	525	-	-

Impairment charge on goodwill

During the prior financial year, the Overseas Bank made a decision to amalgamate the BT Investment Management operation into one separate legal entity, BT Investment Management Limited ('BTIM'), with a portion sold off as part of an initial public offering. At the initial public offering, the Overseas Bank retained 60% of the equity in BTIM, with the balance held by investment professionals employed by BTIM and other investors. The Investment Management operations within the NZ Banking Group were not part of the operations transferred to BTIM. However, as a result of the Overseas Banking Group's decision, the cash flows of the BT Financial Group operations within the NZ Banking Group, allocated to the BT Funds Management (NZ) Limited CGU, have been adversely affected and an impairment charge of \$22 million was recorded against the goodwill associated with this CGU. A pre-tax discount rate of 15.7% was applied to the cash flow projections in determining the recoverable amount of the CGU.

Notes to the financial statements

Note 16 Property, plant and equipment

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Leasehold improvements				
Cost	165	153	-	-
Accumulated depreciation and impairment charges	(97)	(107)	-	-
Net carrying amount of leasehold improvements	68	46	-	-
Furniture and equipment				
Cost	193	200	3	3
Accumulated depreciation and impairment charges	(167)	(168)	(3)	(3)
Net carrying amount of furniture and equipment	26	32	-	-
Total property, plant and equipment	94	78	-	-

	NZ Banking Group			NZ Branch		
	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m	Leasehold Improvements \$m	Furniture and Equipment \$m	Total \$m
Balance as at 1 October 2008	46	32	78	-	-	-
Additions	31	8	39	-	-	-
Disposals	-	(2)	(2)	-	-	-
Depreciation	(9)	(12)	(21)	-	-	-
Net carrying amount as at 30 September 2009	68	26	94	-	-	-
Balance as at 1 October 2007	44	45	89	-	-	-
Additions	18	3	21	-	1	1
Depreciation	(10)	(14)	(24)	-	-	-
Impairment charges	(6)	(2)	(8)	-	(1)	(1)
Net carrying amount as at 30 September 2008	46	32	78	-	-	-

Property, plant and equipment under construction

Included in property, plant and equipment are leasehold improvements in the NZ Banking Group with a carrying value of \$46 million (30 September 2008: \$23 million) that are under construction.

Note 17 Deferred tax assets

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	4	4	-	-
Provision for loan impairment	199	106	32	10
Provision for employee entitlements	21	28	1	-
Cash flow hedges	71	37	-	-
Other temporary differences	8	5	4	-
Other amounts recognised directly in equity	3	3	3	3
Set-off of deferred tax liabilities (refer to Note 23)	-	(19)	-	(13)
Balance at end of the year	306	164	40	-
Movements				
Balance at beginning of the year	164	92	-	3
Prior year adjustments	4	(8)	2	6
Set-off of deferred tax liabilities (refer to Note 23)	-	(19)	-	(13)
Credited to the income statement (refer to Note 7)	88	29	13	7
Other temporary differences	26	-	25	-
Credited to equity	24	77	-	-
Change in corporate tax rate	-	(7)	-	(3)
Balance at end of the year	306	164	40	-

Note 18 Other assets

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Accrued interest receivable	132	211	15	50
Securities sold not yet delivered	276	136	276	136
Other assets ¹	90	555	66	497
Total other assets	498	902	357	683

¹ Included within Other assets is the property referred to in Note 36 that is held for resale.

Note 19 Due to other financial institutions

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest bearing	233	295	233	295
Non-interest bearing	252	2	252	2
Total due to other financial institutions	485	297	485	297
Due to other financial institutions:				
At call	485	297	485	297
Total due to other financial institutions	485	297	485	297

Note 20 Deposits

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Deposits at fair value				
Certificates of deposit	3,468	4,163	-	-
Total deposits at fair value	3,468	4,163	-	-
Deposits at amortised cost				
Non-interest bearing, repayable at call	2,386	2,144	166	114
Other interest bearing:				
At call	12,987	13,981	2,368	3,030
Term	17,571	16,063	1,382	980
Total deposits at amortised cost	32,944	32,188	3,916	4,124
Total deposits	36,412	36,351	3,916	4,124

The NZ Branch held no retail deposits as at 30 September 2009 (30 September 2008: nil).

Note 21 Other trading liabilities at fair value

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Held for trading				
Securities sold short	418	207	418	207
Securities sold under agreements to repurchase	2,280	894	395	894
Total other trading liabilities at fair value	2,698	1,101	813	1,101

Note 22 Debt Issues

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Short-term debt				
Commercial paper	6,027	6,517	-	-
Total short-term debt	6,027	6,517	-	-
Long-term debt				
Euro medium-term notes	4,863	4,585	-	-
Domestic medium-term notes	1,479	-	-	-
Total long-term debt	6,342	4,585	-	-
Total debt issues	12,369	11,102	-	-

Notes to the financial statements

Note 23 Deferred tax liabilities

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Deferred tax liabilities are attributable to the following:				
Other temporary differences	-	19	-	19
Set-off of deferred tax assets (refer to Note 17)	-	(19)	-	(13)
Balance at end of the year	-	-	-	6
Movements				
Balance at beginning of the year	-	11	6	-
Prior year adjustments	-	4	-	4
Set-off of deferred tax assets (refer to Note 17)	-	(19)	-	(13)
Charged/(credited) to the income statement (refer to Note 7)	-	6	(6)	17
Change to corporate tax rate	-	(2)	-	(2)
Balance at end of the year	-	-	-	6

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

Note 24 Provisions

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Long service leave	9	9	1	1
Annual leave and other staff benefits	43	39	9	5
Non-lending losses	2	5	-	-
Derivatives and commitments to extend credit	51	28	17	7
Restructuring costs	1	-	1	-
Total provisions	106	81	28	13

	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-lending Losses \$m	Derivatives and Commitments to Extend Credit \$m	Restructuring Provisions \$m	Total \$m
NZ Banking Group						
Balance as at 1 October 2008	9	39	5	28	-	81
Additional provisions recognised	-	30	3	23	1	57
Utilised during the year	-	(26)	(6)	-	-	(32)
Balance as at 30 September 2009	9	43	2	51	1	106
NZ Branch						
Balance as at 1 October 2008	1	5	-	7	-	13
Additional provisions recognised	-	15	1	10	1	27
Utilised during the year	-	(11)	(1)	-	-	(12)
Balance as at 30 September 2009	1	9	-	17	1	28

	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-lending Losses \$m	Derivatives and Commitments to Extend Credit \$m	Restructuring Provisions \$m	Total \$m
NZ Banking Group						
Balance as at 1 October 2007	9	33	2	24	-	68
Additional provisions recognised	1	27	3	4	-	35
Utilised during the year	(1)	(21)	-	-	-	(22)
Balance as at 30 September 2008	9	39	5	28	-	81
NZ Branch						
Balance as at 1 October 2007	1	7	-	5	-	13
Additional provisions recognised	-	7	-	1	-	8
Utilised during the year	-	(9)	-	1	-	(8)
Balance as at 30 September 2008	1	5	-	7	-	13

Note 25 Other liabilities

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Accrued interest payable	299	471	9	16
Securities purchased but not yet delivered	104	149	104	149
Claims reserves	13	13	-	-
Credit card loyalty programme	27	25	-	-
Retirement benefit deficit	30	64	-	-
Other liabilities	190	389	9	240
Total other liabilities	663	1,111	122	405

Note 26 Subordinated debentures

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Junior subordinated debentures	790	798	790	798
Total subordinated debentures	790	798	790	798

Junior subordinated debentures

On 5 April 2004, the NZ Branch issued US\$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV, being a member of the Overseas Banking Group.

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

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

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

With the prior written consent of APRA, if required, the Overseas Bank may elect to redeem the convertible debentures for cash before 31 March 2016 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 31 March 2016.

Note 27 Priority of financial liabilities in the event of liquidation

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Deposits at amortised cost	32,944	32,188	3,916	4,124
Deposits at fair value	3,468	4,163	-	-
Debt issues	12,369	11,102	-	-
Due to other financial institutions	485	297	485	297
Other trading liabilities at fair value	2,698	1,101	813	1,101
Derivative financial instruments	6,970	4,602	6,970	4,602
Other liabilities	633	1,047	122	405
Subordinated debentures	790	798	790	798
Due to related entities	8,673	11,307	9,256	13,038
Total financial liabilities	69,030	66,605	22,352	24,365

Note 28 Convertible debentures

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Trust preferred securities	1,284	1,284	1,284	1,284

Trust preferred securities

During the year ended 30 September 2003, the NZ Branch 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 ('**2003 TPS**') issued by the Overseas Banking Group in the United States of America.

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

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

The convertible debentures have no stated maturity, but will automatically convert into ADRs each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US\$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur. The 2003 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 2003 TPS. The dividend payment rate on the Overseas Bank preference shares will also be the same as that applicable to the 2003 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 Branch will make distributions in New Zealand dollars to Funding Trust III. Funding Trust III has entered into a currency swap with the Overseas Bank under which Funding Trust III has agreed to pay the Overseas Bank the New Zealand dollar distributions it receives on the convertible debentures in exchange for US dollars. The NZ Branch has also entered into a netting agreement under which it has agreed to pay any New Zealand dollar distributions on the convertible debentures direct to the Overseas Bank.

With the prior written consent of APRA, if required, the NZ Branch may elect to redeem the convertible debentures for cash before 30 September 2013 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 30 September 2013. The proceeds received by Funding Trust III from the redemption of the convertible debentures must be used to redeem the 2003 TPS. The holders of the convertible debentures do not have an option to require redemption of these instruments.

Note 29 Related entities

NZ Banking Group

The NZ Banking Group consists of the New Zealand operations of Westpac Banking Corporation, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited, Tasman Funding No. 1 Limited, Tasman Funding No. 2 Limited and their jointly owned subsidiary PF No. 2, Westpac NZ Funding Limited, BT Financial Group (NZ) Limited and its subsidiaries, Westpac Group Investment - NZ - Limited and its subsidiaries, Westpac Financial Services Group - NZ - Limited and its subsidiaries, Westpac New Zealand Group Limited and its subsidiaries, St.George New Zealand Limited and St.George Financial Investment New Zealand Limited.

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	Non-trading company	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
Westpac Capital - NZ - Limited	Finance and holding company	
Aotearoa Financial Services Limited	Non-trading company	
Westpac Lease Discounting - NZ - Limited	Finance company	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
Westpac Overseas Investments Limited	Finance company	
Westpac Equity Investments NZ Limited	Finance company	
Westpac Finance Limited	Finance company	
WestpacTrust Securities NZ Limited	Funding company	

Note 29 Related entities (continued)

The subsidiaries of BT Financial Group (NZ) Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Agri Private Capital Management Limited	Funds management company	
BT Funds Management NZ Limited	Funds management company	

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 Nominees - NZ - Limited	Nominee company	
Westpac Superannuation Nominees - NZ - Limited	Nominee company	

The subsidiaries of Westpac New Zealand Group Limited are listed below:

Name of Subsidiary	Principal Activity	Notes
Westpac New Zealand Limited	Registered bank	
Westpac NZ Operations Limited	Holding company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac (NZ) Investments Limited	Property owning and capital funding company	
Westpac Securities NZ Limited	Funding company	
Westpac NZ Securitisation Holdings Limited	Holding company	Incorporated 14 October 2008 9.5% owned
Westpac NZ Securitisation Limited	Investment company	Incorporated 14 October 2008
Westpac Term PIE Fund	Unit Trust	Established 20 July 2009

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

- Waratah Receivables Corporation (NZ) Limited;
- Waratah Securities Australia Limited (NZ Branch);
- WST - Funding Trust New Zealand (NZ Branch); and
- WST - NZ Warehouse Trust #1.

NZ Banking Group together with its subsidiaries provide retail, corporate and investment banking services.

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

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

- Mondex New Zealand Limited;
- Paymark Limited (previously Electronic Transaction Services Limited); and
- Interchange and Settlement Limited.

The NZ Banking Group does not have 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 and Singapore.

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

Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, Westpac NZ Securitisation Limited ('**WNZSL**'), were incorporated on 14 October 2008. The NZ Banking Group, through two of its subsidiaries, has a qualifying interest of 19% in WNZSHL. Through contractual arrangements put in place, the NZ Banking Group is deemed to control both WNZSHL and WNZSL.

The Westpac Term PIE Fund ('**Term PIE**') was established on 20 July 2009 as a unit trust under the Unit Trusts Act 1960. Term PIE is a portfolio investment entity ('**PIE**'), where BT Funds Management (NZ) Limited is the manager and issuer of Term PIE. The manager has appointed Westpac New Zealand to perform all customer management and account administration for Term PIE. Westpac New Zealand is the fund's registrar and administration manager. Westpac New Zealand is considered to control Term PIE based on contractual arrangements put in place, and as such Term PIE is consolidated in the financial statements of the NZ Banking Group.

Note 29 Related entities (continued)

Investment in associate

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

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

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Balance at beginning of the year	48	-	-	-
Equity share of net profit	-	48	-	-
Balance at end of the year	48	48	-	-

Due to related entities

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

Nature of transactions

The NZ Branch pays subvention payments to members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Branch for the year ended 30 September 2009 was nil (30 September 2008: nil). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

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

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

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

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

On 20 February 2008, Westpac New Zealand issued 20,000 B Voting shares for \$20,000 to Westpac Overseas Holdings No. 2 Pty Limited and 1,300,000,000 redeemable preference shares ('RPS') for \$1.3 billion to Sixty Martin Place (Holdings) Pty Limited (a subsidiary of the Overseas Bank) as general partner of the Westpac Pacific Limited Partnership. The B Voting shares and RPS were issued as part of a funding transaction with the Overseas Bank, Westpac Overseas Holdings No. 2 Pty Limited, and Sixty Martin Place (Holdings) Pty Limited as general partner of the Westpac Pacific Limited Partnership. The RPS were subsequently redeemed on 18 February 2009.

On 20 February 2008, the Overseas Bank advanced capital of \$1.3 billion to the NZ Branch. On 14 September 2009, the Overseas Bank advanced a further \$500 million capital to the NZ Branch.

The NZ Branch enters into derivative transactions with other members of the NZ Banking Group and the Overseas Banking Group in the normal course of business. These transactions are subject to a market standard netting agreement and, as a result, outstanding derivative balances are included in the due from related entities balance on a net basis. Management systems and operational controls are in place in order to manage any resulting interest rate or currency risk. Accordingly, it is not envisaged that any liability resulting in material loss will arise from these transactions.

Note 30 Derivative financial instruments

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

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

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

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

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

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

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

Note 30 Derivative financial instruments (continued)

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

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

Trading

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

Hedging

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

Fair value hedges

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

For the NZ Banking Group, the change in the fair value of hedging instruments designated as fair value hedges was a \$126 million loss (30 September 2008: \$256 million loss) while the change in the fair value of hedged items, attributed to the hedge risk was a \$129 million gain (30 September 2008: \$254 million gain).

Cash flow hedges

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. There were no material transactions for which cash flow hedge accounting had to be ceased during the year ended 30 September 2009 as a result of highly probable cash flows no longer expected to occur.

Dual fair value and cash flow hedges

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

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

Notes to the financial statements

Note 30 Derivative financial instruments (continued)

	NZ Banking Group		
	Notional	2009 Fair Value Asset	Fair Value (Liability)
	\$m	\$m	\$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,491	9	-
Forwards	2,758	1	-
Swaps	211,487	4,393	(3,521)
Options	3,513	36	(24)
Foreign exchange derivatives			
Forwards	27,210	1,061	(1,668)
Swaps	23,076	805	(1,070)
Total held for trading derivatives	281,535	6,305	(6,283)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	10,061	18	(368)
Total fair value hedging derivatives	10,061	18	(368)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	5,980	5	(319)
Total cash flow hedging derivatives	5,980	5	(319)
Total derivatives	297,576	6,328	(6,970)

The notional and fair value amounts disclosed in this note do not include derivatives with related parties. The fair value of such derivatives is included within amounts due from and due to related entities.

	NZ Banking Group		
	Notional	2008 Fair Value Asset	Fair Value (Liability)
	\$m	\$m	\$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,743	4	-
Forwards	10,270	5	(6)
Swaps	225,542	2,493	(2,479)
Options	4,950	36	(23)
Foreign exchange derivatives			
Forwards	34,089	1,093	(960)
Swaps	34,407	1,504	(716)
Total held for trading derivatives	323,001	5,135	(4,184)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	11,716	1	(244)
Total fair value hedging derivatives	11,716	1	(244)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	6,280	1	(174)
Total cash flow hedging derivatives	6,280	1	(174)
Total derivatives	340,997	5,137	(4,602)

Note 30 Derivative financial instruments (continued)

	NZ Branch		
	Notional \$m	2009 Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,491	9	-
Forwards	2,758	1	-
Swaps	227,004	4,394	(4,208)
Options	3,513	36	(24)
Foreign exchange derivatives			
Forwards	27,210	1,061	(1,668)
Swaps	23,076	805	(1,070)
Total held for trading derivatives	297,052	6,306	(6,970)
Total derivatives	297,052	6,306	(6,970)

	NZ Branch		
	Notional \$m	2008 Fair Value Asset \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,743	4	-
Forwards	10,270	5	(6)
Swaps	242,938	2,483	(2,897)
Options	4,950	36	(23)
Foreign exchange derivatives			
Forwards	34,089	1,093	(960)
Swaps	34,407	1,504	(716)
Total held for trading derivatives	340,397	5,125	(4,602)
Total derivatives	340,397	5,125	(4,602)

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

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

For the year ended 30 September 2009, no loss was recognised due to hedge ineffectiveness on cash flow hedges (30 September 2008: \$3 million loss) in the NZ Banking Group.

	NZ Banking Group							
	2008							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	8	5	30	27	16	10	3	1
Cash outflows (liabilities)	3	4	34	28	16	10	4	1

Note 31 Interest earning assets and interest bearing liabilities

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest earning and discount bearing assets	62,587	62,197	13,963	17,956
Interest and discount bearing liabilities	55,384	56,406	11,619	16,954

Note 32 Fair value of financial instruments

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

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

Certain short-term financial instruments

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

Floating rate financial instruments

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

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.

Due to other financial institutions, deposits and debt issues

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

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

Exchange rate and interest rate contracts

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

Subordinated debentures

Subordinated debentures are carried at amortised cost which approximates fair value.

Note 32 Fair value of financial instruments (continued)

Interest rates used for determining fair value

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

	NZ Banking Group and NZ Branch	
	2009 %	2008 %
Loans	3.88 - 9.51	7.53 - 10.88
Deposits	2.48 - 7.85	3.66 - 8.59

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

	NZ Banking Group			
	2009 Carrying Amount \$m	2009 Estimated Fair Value \$m	2008 Carrying Amount \$m	2008 Estimated Fair Value \$m
Financial assets				
Cash and balances with central banks	798	798	1,286	1,286
Due from other financial institutions	843	843	1,222	1,222
Derivative financial instruments	6,328	6,328	5,137	5,137
Other trading securities	5,405	5,405	3,527	3,527
Available-for-sale securities	37	37	35	35
Loans	55,592	55,975	55,569	55,477
Life insurance assets	113	113	89	89
Due from related entities	2,759	2,759	2,170	2,170
Investment in associate	48	48	48	48
Other assets	498	498	902	902
Total financial assets	72,421	72,804	69,985	69,893
Non-financial assets comprise of:				
Goodwill and other intangible assets	623	N/A	627	N/A
Property, plant and equipment	94	N/A	78	N/A
Current tax assets	-	N/A	28	N/A
Deferred tax assets	306	N/A	164	N/A
Total assets	73,444		70,882	
Financial liabilities				
Due to other financial institutions	485	485	297	297
Deposits at fair value	3,468	3,468	4,163	4,163
Deposits at amortised cost	32,944	32,994	32,188	32,228
Derivative financial instruments	6,970	6,970	4,602	4,602
Other trading liabilities at fair value	2,698	2,698	1,101	1,101
Debt issues	12,369	12,540	11,102	11,214
Other liabilities	633	633	1,047	1,047
Subordinated debentures	790	790	798	798
Due to related entities	8,673	8,673	11,307	11,307
Total financial liabilities	69,030	69,251	66,605	66,757
Non-financial liabilities comprise of:				
Current tax liabilities	373	N/A	-	N/A
Provisions	106	N/A	81	N/A
Other liabilities (retirement benefit deficit)	30	N/A	64	N/A
Total liabilities	69,539		66,750	

Note 32 Fair value of financial instruments (continued)

	NZ Branch			
	2009	2009	2008	2008
	Carrying Amount \$m	Estimated Fair Value \$m	Carrying Amount \$m	Estimated Fair Value \$m
Financial assets				
Cash and balances with central banks	584	584	1,174	1,174
Due from other financial institutions	841	841	558	558
Derivative financial instruments	6,306	6,306	5,125	5,125
Other trading securities	984	984	1,554	1,554
Loans	7,583	7,583	8,894	8,895
Due from related entities	8,595	8,595	7,787	7,787
Other assets	357	357	683	683
Total financial assets	25,250	25,250	25,775	25,776
Non-financial assets comprise of:				
Current tax assets	-	N/A	67	N/A
Deferred tax assets	40	N/A	-	N/A
Total assets	25,290		25,842	
Financial liabilities				
Due to other financial institutions	485	485	297	297
Deposits at amortised cost	3,916	3,915	4,124	4,130
Derivative financial instruments	6,970	6,970	4,602	4,602
Other trading liabilities at fair value	813	813	1,101	1,101
Other liabilities	122	122	405	405
Subordinated debentures	790	790	798	798
Due to related entities	9,256	9,256	13,038	13,038
Total financial liabilities	22,352	22,351	24,365	24,371
Non-financial liabilities comprise of:				
Current tax liabilities	234	N/A	-	N/A
Deferred tax liabilities	-	N/A	6	N/A
Provisions	28	N/A	13	N/A
Total liabilities	22,614		24,384	

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

Note 33 Commitments and contingent liabilities

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

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

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

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

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

Note 33 Commitments and contingent liabilities (continued)

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Commitments for capital expenditure				
Due within one year	25	47	-	-
Other expenditure commitments:				
One year or less	64	67	-	-
Between one and five years	12	67	-	-
Over five years	6	-	-	-
Total other expenditure commitments	82	134	-	-
Lease commitments (all leases are classified as operating leases)				
Premises and sites	203	228	-	-
Motor vehicles	4	4	-	-
Total lease commitments	207	232	-	-
Lease commitments are due as follows:				
One year or less	39	42	-	-
Between one and five years	86	97	-	-
Over five years	82	93	-	-
Total lease commitments	207	232	-	-
Contingent liabilities				
Direct credit substitutes	331	310	285	258
Transaction related contingent items	649	740	370	460
Underwriting and sub-underwriting facilities	-	-	-	-
Short-term, self liquidating trade related contingent liabilities	740	889	62	101
Total contingent liabilities	1,720	1,939	717	819

Other contingent liabilities

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

The NZIRD reviewed a number of structured finance transactions undertaken in New Zealand. Following the review, the NZIRD issued amended assessments for the 1999 to 2005 tax years in relation to nine transactions undertaken between 1998 and 2002. The primary tax in dispute is approximately \$586 million. With interest (net of tax) this increases to approximately \$918 million (interest calculated to 30 September 2009). On 7 October 2009 the New Zealand High Court found in favour of the NZIRD in relation to the NZ Banking Group's challenge to the amended assessments in respect of four representative transactions. The decision will apply to all transactions unless a party can show any material difference in the transactions not considered at trial. The NZ Banking Group has lodged an appeal against the decision to the New Zealand Court of Appeal. No penalties have been assessed by the NZIRD. The possible range of penalties under New Zealand law is up to 100% of the primary tax in dispute. The NZ Banking Group has not raised a provision relating to penalties. During the year the NZ Banking Group raised its tax provisions relating to this litigation to \$918 million.

The proceedings commenced by the New Zealand Commerce Commission and a group of retailers against Westpac New Zealand and The Warehouse Financial Services Limited (members of the NZ Banking Group) alleging breaches of the Commerce Act 1986 which were previously reported have been settled and the proceedings discontinued. In reaching settlement with the New Zealand Commerce Commission and the retailers, the NZ Banking Group made no admission of liability and did not pay any penalties or damages. The terms of the settlements are confidential.

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

Other commitments

As at 30 September 2009, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risk. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

Note 34 Segment information

The NZ Banking Group operates predominantly in retail and business banking, institutional banking and wealth management industries within New Zealand.

The basis of segment reporting reflects the management of the business within the Overseas Banking Group, rather than the legal structure of the NZ Banking Group. The business segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each business segment. Intersegment pricing is determined on an arm's length basis.

Primary reporting – business segments

The business segments are defined by the customers they service and the services they provide. The New Zealand Banking segment is responsible for servicing and product development for consumer and smaller to medium-sized customers within New Zealand, and includes the majority of the Corporate Head Office functions that exist within New Zealand. The Institutional Banking segment represents primarily corporations and institutional customers based in New Zealand, and also provides financial markets services to middle-market business banking customers in New Zealand. The Other Banking segment includes the results of Group Capital, Structured Finance and Group Treasury activities as well as activities that cannot be directly attributable to any other segment within the New Zealand geographical area.

	NZ Banking Group			
	Year ended 30 September 2009			
	New Zealand Banking \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers ¹	4,145	754	333	5,232
Internal revenue	(113)	(12)	125	-
Total segment revenue	4,032	742	458	5,232
Interest income	3,744	535	343	4,622
Interest expense	(1,132)	(104)	(1,076)	(2,312)
Internal charges ²	(1,378)	(300)	848	(830)
Net interest income	1,234	131	115	1,480
Net non-interest income	401	219	(10)	610
Internal charges	7	(5)	(2)	-
Net operating income	1,642	345	103	2,090
Depreciation	(21)	-	-	(21)
Other operating expenses	(617)	(43)	(57)	(717)
Internal charges ²	(57)	(19)	54	(22)
Amortisation	(45)	-	-	(45)
Impairment on intangible assets	-	-	(3)	(3)
Total operating expenses	(740)	(62)	(6)	(808)
Impairment charges on loans	(620)	(70)	-	(690)
Profit before income tax expense	282	213	97	592
Income tax expense on operating profit				(168)
Income tax expense on New Zealand structured finance transactions				(918)
Loss after income tax expense				(494)
(Loss)/profit after income tax expense attributable to:				
Head office account and equity holders of NZ Banking Group				(497)
Minority interests				3
				(494)
Total external assets excluding tax	48,816	15,016	6,547	70,379
Intragroup assets				2,759
Tax assets				306
Total assets				73,444
Total external liabilities excluding tax	29,311	11,073	20,109	60,493
Intragroup liabilities				8,673
Tax liabilities				373
Total liabilities				69,539
Acquisition of property, plant and equipment and intangible assets	83	-	-	83

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

² Internal charges are eliminated at the ultimate parent level.

Note 34 Segment information (continued)

	NZ Banking Group			
	Year ended 30 September 2008			
	New Zealand Banking \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers ¹	4,606	894	507	6,007
Internal revenue	(207)	99	108	-
Total segment revenue	4,399	993	615	6,007
Interest income	4,190	768	429	5,387
Interest expense	(1,711)	(285)	(1,665)	(3,661)
Internal charges ²	(1,321)	(381)	1,314	(388)
Net interest income	1,158	102	78	1,338
Net non-interest income	416	126	78	620
Internal charges	8	(7)	(1)	-
Net operating income	1,582	221	155	1,958
Depreciation	(24)	-	-	(24)
Other operating expenses	(602)	(32)	(40)	(674)
Internal charges ²	(17)	(7)	-	(24)
Amortisation	(49)	-	-	(49)
Impairment on goodwill	-	-	(22)	(22)
Impairment charges on intangible assets	-	-	(13)	(13)
Impairment charges on property, plant and equipment	(8)	-	-	(8)
Total operating expenses	(700)	(39)	(75)	(814)
Impairment charges on loans	(169)	(11)	(1)	(181)
Profit before income tax expense	713	171	79	963
Income tax expense on operating profit				(281)
Profit after income tax expense				682
Profit after income tax expense attributable to:				
Head office account and equity holders of NZ Banking Group				679
Profit attributable to minority interests				3
				682
Total external assets excluding tax	47,710	14,079	6,731	68,520
Intragroup assets				2,170
Tax assets				192
Total assets				70,882
Total external liabilities excluding tax	28,200	8,059	19,184	55,443
Intragroup liabilities				11,307
Tax liabilities				-
Total liabilities				66,750
Acquisition of property, plant and equipment and intangible assets	59	-	-	59

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

² Internal charges are eliminated at the ultimate parent level.

Secondary reporting – geographic segments

The NZ Banking Group operates predominantly within New Zealand.

Note 35 Superannuation commitments

The NZ Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the NZ Banking Group as required. The defined benefit scheme has been closed to new members since 1 April 1990. An actuarial valuation of the scheme is undertaken periodically, with the last actuarial assessment of the funding status undertaken as at 30 June 2009. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and contributions are made to the defined benefits scheme at the rate at 12% of members' salaries.

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

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

	NZ Banking Group	
	2009	2008
	\$m	\$m
Benefit obligation at the end of the year	96	117
Fair value of plan assets at the end of the year	76	74
Net recognised liability	20	43
Contribution tax	10	21
Net recognised liability including contribution tax	30	64

	NZ Banking Group	
	2009	2008
	\$m	\$m
Movement in the net liability recognised in the balance sheet		
Opening liability with contributions tax	64	17
Superannuation expense with contribution tax	2	-
Employer contributions including contribution tax	(6)	(2)
Amount of (gains)/loss recognised in equity with contributions tax	(30)	49
Closing liability with contribution tax	30	64

Expense recognised in the income statement

The amounts recognised in salaries and other staff expenses in the income statement as operating expenses for the reporting period in respect of the defined benefit superannuation scheme were as follows:

	NZ Banking Group	
	2009	2008
	\$m	\$m
Superannuation expense		
The amounts recognised in the income statement is as follows:		
Current service cost	1	1
Interest cost	5	5
Expected return of fund assets	(5)	(6)
	1	-

	NZ Banking Group	
	2009	2008
	\$m	\$m
Change in benefit obligation		
Change in present value of defined benefit obligation is as follows:		
Benefit obligation at the beginning of the year	117	110
Current service cost	1	1
Interest cost	5	5
Actuarial (gain)/loss	(20)	10
Benefits paid	(8)	(9)
Exchange and other adjustments	1	-
Benefit obligation at the end of the year	96	117

	NZ Banking Group	
	2009	2008
	\$m	\$m
Change in plan assets		
Change in fair value of plan assets is as follows:		
Fair value of plan assets at beginning of the year	74	99
Expected return on plan assets	5	6
Employer contributions	5	1
Actuarial loss	-	(23)
Benefits paid	(8)	(9)
Fair value of plan assets at end of the year	76	74

Note 35 Superannuation commitments (continued)

	NZ Banking Group	
	2009	2008
	\$m	\$m
Amounts recognised in equity		
Cumulative amount of loss/(gain) recognised in equity at beginning of the year	20	(13)
Immediate recognition of (gain)/loss	(20)	33
Cumulative amount of loss/(gain) recognised in equity at end of the year	-	20

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

Assumptions	NZ Banking Group	
	2009	2008
	%	%
Discount rate	4.0	4.0
Expected return on plan assets – active members (end of year)	6.4	6.2
Expected return on plan assets – pensioners	6.4	6.2
Rate of increase in salaries	2.0	3.5
Rate of increase for pensions	1.5	2.5

Asset allocation	NZ Banking Group	
	2009	2008
	%	%
Cash	1.3	0.7
Equity instruments	57.9	55.8
Debt instruments	40.8	43.5
	100.0	100.0

Value of plan assets	NZ Banking Group	
	2009	2008
	\$m	\$m
Invested in Overseas Bank's debt and equity securities	6	7

Actual return on plan assets	NZ Banking Group	
	2009	2008
	\$m	\$m
Actual return on plan assets	5	(17)

Expected contributions	NZ Banking Group	
	2009	2008
	\$m	\$m
Expected employer contributions (net)	6	-

Historic summary	NZ Banking Group				
	2009	2008	2007	2006	2005
	\$m	\$m	\$m	\$m	\$m
Defined benefit plan obligations	96	117	110	131	140
Plan assets	76	74	99	113	109
Net deficit	20	43	11	18	31

	NZ Banking Group				
	2009	2008	2007	2006	2005
	\$m	\$m	\$m	\$m	\$m
Experience adjustments on plan assets	-	(23)	2	8	5
Experience adjustments on plan liabilities	20	(10)	1	2	(2)

Note 36 Key management disclosures

Key management compensation

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

	NZ Banking Group	
	Year ended 30 September 2009	Year ended 30 September 2008
	\$'000	\$'000
Salaries and other short-term benefits	8,184	7,998
Post-employment benefits	747	574
Other termination benefits	-	150
Share-based payments	2,913	864
Total key management compensation	11,844	9,586

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

Loans and deposits with key management personnel

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

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

Brad Cooper house purchase

In June 2008, the Overseas Bank requested that Brad Cooper, who was then Chief Executive, Westpac New Zealand, transfer to Sydney, Australia to commence the position of Chief Transformation Officer. In connection with Mr Cooper's relocation, the Overseas Bank agreed to purchase Mr Cooper's house in Auckland, New Zealand at the fair market value of the property at the time of the agreement, with the Overseas Bank having the right to substitute a third party buyer if one could be found prior to settlement. The fair market value was assessed at \$8 million being the average of two independent valuations provided by registered valuers experienced in the Auckland market. That valuation was converted into Australian dollars at an agreed rate of NZ\$1 to A\$0.86, resulting in a purchase price of A\$6.88 million. The Overseas Bank was obliged under the agreement of sale to pay the maintenance costs on the property from the time of that agreement. In accordance with that obligation, the Overseas Bank paid a total of \$60,000 in respect of maintenance costs in respect of the property. The Overseas Bank needed to extend the contracted settlement date to finalise New Zealand regulatory approvals required for the purchase of the property. The Overseas Bank paid Mr Cooper a total of A\$245,399 in interest and associated compensation resulting from the delay in settlement, which was assessed on arm's length terms. Settlement of the purchase of the property by the Overseas Bank occurred on 10 July 2009.

Other related party transactions

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

Note 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 30 September 2009, the NZ Banking Group had securitised assets amounting to \$523 million (30 September 2008: \$596 million) all having been sold by the NZ Banking Group to external parties being the HLT and the Westpac Mortgage Investment Fund ('MIF') via the HLT.

The HLT was established in 2000 pursuant to a trust deed between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the NZ Banking Group. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand.

In June 2005, a new fund known as the MIF was established pursuant to a trust deed between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited. The MIF was structured to meet the requirements of a Designated Group Investment Fund for the purposes of New Zealand tax law. The purpose of the MIF is to invest in home loans secured by first ranking mortgages, and the MIF can purchase these home loans from the HLT. The investment strategy of the HLT was amended in June 2005 to allow the HLT to be an investor in the units of the MIF. The HLT was the initial investor in the MIF and took units in the MIF in settlement for the sale of an initial pool of home loans. Subsequent to this, the HLT has sold and will continue to sell pools of home loans to the MIF as unit subscriptions are taken out in the MIF by retail investors.

The NZ Banking Group receives fees for various services provided to the HLT and the MIF on an arm's length basis, including servicing fees and custodial fees. These fees are recognised over the years in which the costs are borne. The NZ Banking Group also provides arm's length interest rate swaps to HLT and the MIF.

Note 37 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

The units issued by the HLT and the MIF do not represent deposits or other liabilities of either the NZ Banking Group or the Overseas Banking Group. Neither the NZ Banking Group, Westpac New Zealand nor the Overseas Banking Group in any way stands behind the capital value or performance of these units except to the limited extent provided in the transaction documents for those programmes through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group, Westpac New Zealand, nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the notes 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 in the units issued by the HLT or the MIF and neither intends to provide such support.

The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the HLT other than where there is a breach of representation or warranty within 120 days of the initial sale. A purchase of securitised assets held by the MIF may occur if the NZ Banking Group accepts an offer made by the trustee of the MIF to purchase the assets when the outstanding principal amount of the assets left in the MIF is less than 10% of the initial principal amount of assets sold to the MIF, but the NZ Banking Group is not required to accept any offer. The NZ Banking Group has no obligation to repurchase any of the securitised assets held by the MIF or HLT.

In addition, the NZ Banking Group executed a \$5.0 billion internal mortgage-backed securitisation in October 2008, which increased to \$7.5 billion in December 2008. These securities are available for external issuance and the most senior rated securities (\$7.25 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank. Reflecting the underlying movement in loan balances in the facility, the NZ Banking Group executed a \$1.5 billion substitution to the internal mortgage-backed securitisation programme in September 2009 to ensure the appropriate quality and total value able to be securitised were maintained. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions become difficult. It takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer securitised residential mortgage assets from their own balance sheets as collateral for the Reserve Bank's repurchase agreements.

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

Funds management and other fiduciary activities

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

The Term PIE is managed by a member of the NZ Banking Group (refer to Note 29 for further details) and invests in deposits guaranteed under the New Zealand deposit guarantee scheme within Westpac New Zealand. Westpac New Zealand is considered to control the Term PIE, and as such the Term PIE is consolidated in the financial statements of the NZ Banking Group.

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

	2009	2008
	\$m	\$m
Private and priority	558	549
Retirement plans	615	396
Retail unit trusts	1,527	1,749
Wholesale unit trusts	108	100
Term PIE	17	-
Total funds under management	2,825	2,794

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

Involvement with the NZ Banking Group

Financial services provided by, and assets purchased from, any member of the NZ Banking Group are on arm's length terms and conditions.

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. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures are likely to minimise the possibility that those conditions would impact adversely on the NZ Banking Group.

Marketing and distribution of insurance products

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

Note 38 Insurance business

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

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

	2009 \$m	2008 \$m
Total asset	117	93
Percentage over total assets of the NZ Banking Group	0.16%	0.13%

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

Note 39 Capital adequacy

Overseas Banking Group capital adequacy ratio

	2009 Unaudited %	2008 Unaudited %
Overseas Banking Group¹		
Tier One Capital expressed as a percentage of risk-weighted exposures	8.1	7.8
Total Capital expressed as a percentage of risk-weighted exposures	10.8	10.8
Overseas Bank (Extended Licensed Entity)¹		
Tier One Capital expressed as a percentage of risk-weighted exposures	9.9	7.9
Total Capital expressed as a percentage of risk-weighted exposures	12.4	11.4

¹ The capital ratios represent information mandated by APRA.

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

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) (as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2009. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

As a highly rated ADI, the Overseas Banking Group has a capital management strategy that seeks to ensure that the enterprise is strongly capitalised relative to the risks in its portfolio. Ensuring that the Overseas Banking Group's balance sheet structure is prudent and flexible has led to the following long-term operating principles:

- the Overseas Banking Group seeks to manage capital within target ranges with the lower limits taking account of regulatory requirements and ratings agency guidance;
- the Overseas Banking Group's target ranges are intended to be consistent with a 'AA' senior debt rating; and
- the Overseas Banking Group actively manages the deployment of capital within the legal entities that make up the Overseas Banking Group to ensure capital ratios are within ranges and other requirements are met.

The Overseas Banking Group reviews its target capital ranges each year. For the foreseeable future, the Overseas Banking Group will seek to maintain conservative levels of capital.

Note 40 Risk management overview

The wide business scope of the NZ Banking Group requires it to take and manage a variety of risks. The NZ Banking Group regards the management of risk to be a fundamental management activity, performed at all levels. Supporting this approach is a framework of core risk principles, policies and processes for measuring and monitoring risk.

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

Risk management framework and governance

Effectively managing the risks inherent in the business is a key strategy as well as supporting the NZ Banking Group's reputation, performance and future success. This risk management framework is approved by the Board and implemented through the Chief Executive Officer for Westpac New Zealand ('NZ CEO') and the executive management team.

Note 40 Risk management overview (continued)

The Overseas Bank has a Board Audit Committee ('**Group BAC**') and a Board Risk Management Committee ('**Group BRMC**'). The Group BAC and Group BRMC are the subcommittees of the Board that are responsible for monitoring risk management performance and controls across the Overseas Banking Group.

The NZ CEO and executive management team are responsible for implementing the Board-approved Risk Management Framework and developing policies, controls, processes and procedures for identifying and managing risk arising from the NZ Banking Group's activities. Operational risk plays a key role in the NZ Banking Group's Risk Management Framework. It is independent from the business units and reports to the Chief Risk Officer who is accountable for the risk compliance framework. Risk Management and Regulatory Affairs are responsible for the coordination of the response to key regulatory developments and issues affecting risk management.

The Portfolio Risk Review unit and the Group Audit unit within Group Assurance of the Overseas Bank undertake independent reviews of management performance. The Portfolio Risk Review unit is responsible for reviewing credit quality and business risks, assessing credit management process quality, credit policy compliance and adequacy of provisions. Group Audit is responsible for performing an independent evaluation of the adequacy and effectiveness of management's control of operational risk.

Core risk principles

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

The principles for managing risk are:

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

Categories of risk

The key risks that the NZ Banking Group is subject to are specific banking risks and risks arising from the general business environment.

The risk management framework identifies four broad categories of risk:

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

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

Group Assurance

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

The Group BAC comprises of nine non-executive and independent Directors of the Overseas Bank. The Group BAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations.

Group Audit NZ, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the NZ Banking Group's activities, records, property and employees. The scope of responsibility of 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 operational risk determines the scope and frequency of individual audits.

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

Note 41 Compliance and operational risk

Compliance risk

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

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

The NZ Banking Group has a dedicated Operational Risk and Compliance function.

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

Operational risk

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

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

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

Note 42 Funding and liquidity risk

Liquidity risk is the potential inability of the NZ Banking Group to fund increases in assets and meet obligations as they come due, which could potentially arise as a result of mismatched cash flows generated by the NZ Banking Group's business. This risk is managed through the Group BRMC approved liquidity framework.

Overall responsibility for liquidity management is delegated to the Overseas Banking Group's Institutional Bank Treasury unit ('**Group Treasury**'), under oversight of the Overseas Banking Group's Market Risk Committee ('**Group MARCO**'). Group Treasury manages liquidity on a daily basis and submits monthly reports to Group MARCO and quarterly reports to the Group BRMC. Regular liquidity reports are provided to both the Reserve Bank and APRA. Westpac New Zealand's Treasury unit is responsible for managing Westpac New Zealand's funding and liquidity position and ensuring that it is prudently maintained and adequately diversified.

Key aspects of the liquidity management strategy are as follows:

Daily liquidity modelling and reporting

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

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

These reports are circulated daily to senior Treasury and Risk personnel. They are also reported monthly to the Banking Book Risk Committee ('**BBRC**') and Group MARCO as well as quarterly to the Group Risk Reward Committee ('**GRRC**') and the Group BRMC.

Annual liquidity risk framework review

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

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

The liquidity framework is reviewed by the Group MARCO and GRRC prior to approval by the Group BRMC.

Note 42 Funding and liquidity risk (continued)

Annual funding plan

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

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

Group MARCO reviews the Annual Funding Plan before it is submitted for approval by Group BRMC.

Contingency planning

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

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

Sources of liquidity

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

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

As at 30 September 2009, the NZ Banking Group held liquid assets of \$9,869 million (30 September 2008: \$5,197 million). For the purpose of this note, liquid assets are a pool of high quality assets (including cash, residential mortgage-backed securities, government securities and registered certificates of deposit issued by other banks) readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

The table below shows the key liquidity information provided to management as at 30 September:

	NZ Banking Group	
	2009	2008
	\$m	\$m
Cash	402	925
Due from other financial institutions	499	363
NZ Government securities	2,482	292
NZ corporate securities	2,208	2,117
Residential mortgage-backed securities	4,278	-
Committed facilities from related entities	-	1,500
Total liquid assets	9,869	5,197

Notes to the financial statements

Note 42 Funding and liquidity risk (continued)

Liquidity analysis

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity, except certain financial assets and liabilities designated at fair value, which have not been analysed on a contractual undiscounted basis. When managing interest rate and liquidity risks, the NZ Banking Group adjusts this contractual profile, where appropriate, for expected customer behaviour.

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

	NZ Banking Group						Total \$m
	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	2009 Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	798	-	-	-	-	-	798
Due from other financial institutions	843	-	-	-	-	-	843
Derivative financial instruments:							
Held for trading	5,261	1,044	-	-	-	-	6,305
Held for hedging purposes (net settled)	-	(8)	23	26	(23)	5	23
Other trading securities	845	1,237	1,883	1,579	-	-	5,544
Available-for-sale securities	-	-	-	-	37	-	37
Loans	2,515	2,278	5,348	6,459	23,785	52,816	93,201
Life insurance assets	92	20	-	-	1	-	113
Due from related entities:							
Non-derivative balances	320	-	-	-	-	-	320
Derivative financial instruments:							
Held for trading	484	1,955	-	-	-	-	2,439
Investment in associate	-	-	-	-	48	-	48
Other assets	1	497	-	-	-	-	498
Total undiscounted financial assets	11,159	7,023	7,254	8,064	23,848	52,821	110,169
Liabilities							
Due to other financial institutions	387	25	58	15	-	-	485
Deposits at fair value	70	1,286	1,805	319	4	-	3,484
Deposits at amortised cost	16,256	2,453	6,066	7,113	1,649	2	33,539
Derivative financial instruments:							
Held for trading	4,622	1,662	-	-	-	-	6,284
Held for hedging purposes (net settled)	-	65	63	372	209	(1)	708
Other trading liabilities at fair value	814	254	1,639	-	-	-	2,707
Debt issues	-	1,819	2,976	2,322	6,340	52	13,509
Other liabilities	-	633	-	-	-	-	633
Subordinated debentures	-	-	-	-	-	790	790
Due to related entities:							
Non-derivative balances	2,715	-	30	110	2,854	1,037	6,746
Derivative financial instruments:							
Held for trading	1,603	1,357	-	-	-	-	2,960
Total undiscounted financial liabilities	26,467	9,554	12,637	10,251	11,056	1,880	71,845
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	9,705	-	-	-	-	-	9,705
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,134	-	-	-	-	-	6,134
Total undiscounted contingent liabilities and commitments	15,839	-	-	-	-	-	15,839

Note 42 Funding and liquidity risk (continued)

	NZ Banking Group						Total \$m
	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	2008 Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	1,286	-	-	-	-	-	1,286
Due from other financial institutions	558	3	607	76	-	-	1,244
Derivative financial instruments:							
Held for trading	4,126	1,009	-	-	-	-	5,135
Held for hedging purposes (net settled)	-	9	9	(16)	-	-	2
Other trading securities	806	441	1,327	1,000	-	-	3,574
Available-for-sale securities	-	-	-	-	35	-	35
Loans	2,981	2,251	5,363	7,236	26,147	62,150	106,128
Life insurance assets	64	16	-	-	1	8	89
Due from related entities:							
Non-derivative balances	318	-	-	-	-	-	318
Derivative financial instruments:							
Held for trading	578	1,286	-	-	-	-	1,864
Investment in associate	-	-	-	-	48	-	48
Other assets	508	394	-	-	-	-	902
Total undiscounted financial assets	11,225	5,409	7,306	8,296	26,231	62,158	120,625
Liabilities							
Due to other financial institutions	284	5	4	4	-	-	297
Deposits at fair value	-	223	2,536	1,473	19	-	4,251
Deposits at amortised cost	11,869	6,436	5,959	6,167	1,317	1,087	32,835
Derivative financial instruments:							
Held for trading	3,317	868	-	-	-	-	4,185
Held for hedging purposes (net settled)	-	(25)	-	160	301	-	436
Other trading liabilities at fair value	350	401	355	-	-	-	1,106
Debt issues	710	1,698	1,111	5,792	2,358	56	11,725
Other liabilities	-	1,047	-	-	-	-	1,047
Subordinated debentures	-	-	-	-	-	798	798
Due to related entities:							
Non-derivative balances	7,384	-	47	177	1,729	1,073	10,410
Derivative financial instruments:							
Held for trading	417	1,397	-	-	-	-	1,814
Total undiscounted financial liabilities	24,331	12,050	10,012	13,773	5,724	3,014	68,904
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	8,564	-	-	-	-	-	8,564
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	6,550	-	-	-	-	-	6,550
Total undiscounted contingent liabilities and commitments	15,114	-	-	-	-	-	15,114

Notes to the financial statements

Note 42 Funding and liquidity risk (continued)

NZ Branch

	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	2009 Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	Total \$m
Assets							
Cash and balances with central banks	584	-	-	-	-	-	584
Due from other financial institutions	841	-	-	-	-	-	841
Derivative financial instruments:							
Held for trading	5,262	1,044	-	-	-	-	6,306
Other trading securities	845	10	110	20	-	-	985
Loans	560	294	1,058	1,409	4,722	201	8,244
Due from related entities:							
Non-derivative balances	4,462	-	-	-	-	-	4,462
Derivative financial instruments:							
Held for trading	2,166	1,967	-	-	-	-	4,133
Other assets	-	357	-	-	-	-	357
Total undiscounted financial assets	14,720	3,672	1,168	1,429	4,722	201	25,912
Liabilities							
Due to other financial institutions	387	25	58	15	-	-	485
Deposits at amortised cost	1,912	994	693	329	14	1	3,943
Derivative financial instruments:							
Held for trading	5,308	1,662	-	-	-	-	6,970
Other trading liabilities at fair value	813	-	-	-	-	-	813
Other liabilities	-	122	-	-	-	-	122
Subordinated debentures	-	-	-	-	-	790	790
Due to related entities:							
Non-derivative balances	5,327	8	8	33	241	1,037	6,654
Derivative financial instruments:							
Held for trading	1,631	1,368	-	-	-	-	2,999
Total undiscounted financial liabilities	15,378	4,179	759	377	255	1,828	22,776
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,381	-	-	-	-	-	3,381
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,157	-	-	-	-	-	2,157
Total undiscounted contingent liabilities and commitments	5,538	-	-	-	-	-	5,538

Note 42 Funding and liquidity risk (continued)

	NZ Branch						Total \$m
	Overnight \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	2008 Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
Assets							
Cash and balances with central banks	1,174	-	-	-	-	-	1,174
Due from other financial institutions	558	-	-	-	-	-	558
Derivative financial instruments:							
Held for trading	4,116	1,009	-	-	-	-	5,125
Other trading securities	676	234	407	252	-	-	1,569
Loans	1,013	391	904	1,784	5,832	184	10,108
Due from related entities:							
Non-derivative balances	4,954	-	-	532	-	-	5,486
Derivative financial instruments:							
Held for trading	1,015	1,286	-	-	-	-	2,301
Other assets	506	177	-	-	-	-	683
Total undiscounted financial assets	14,012	3,097	1,311	2,568	5,832	184	27,004
Liabilities							
Due to other financial institutions	284	5	4	4	-	-	297
Deposits at amortised cost	2,119	1,357	394	274	26	3	4,173
Derivative financial instruments:							
Held for trading	3,734	868	-	-	-	-	4,602
Other trading liabilities at fair value	350	401	355	-	-	-	1,106
Other liabilities	-	405	-	-	-	-	405
Subordinated debentures	-	-	-	-	-	798	798
Due to related entities:							
Non-derivative balances	8,666	-	46	131	1,934	1,073	11,850
Derivative financial instruments:							
Held for trading	706	1,397	-	-	-	-	2,103
Total undiscounted financial liabilities	15,859	4,433	799	409	1,960	1,874	25,334
Total contingent liabilities and commitments							
Other commitments to provide financial services which have an original maturity of one year or more	3,104	-	-	-	-	-	3,104
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	2,251	-	-	-	-	-	2,251
Total undiscounted contingent liabilities and commitments	5,355	-	-	-	-	-	5,355

Note 43 Concentration of funding

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Funding consists of				
Due to other financial institutions	485	297	485	297
Deposits at fair value	3,468	4,163	-	-
Deposits at amortised cost	32,944	32,188	3,916	4,124
Other trading liabilities at fair value	2,698	1,101	813	1,101
Debt issues ¹	12,369	11,102	-	-
Subordinated debentures	790	798	790	798
Due to related entities	8,673	11,307	9,256	13,038
Total funding	61,427	60,956	15,260	19,358
Analysis of funding by product				
Saving accounts	5,829	6,909	7	6
Certificates of deposits	3,468	4,163	-	-
Demand deposits	5,916	6,814	1,805	2,262
Other deposits and borrowings	33,568	29,567	2,104	1,856
Securities short sold and under agreements to repurchase	2,698	1,101	813	1,101
Subordinated debentures	790	798	790	798
Subtotal	52,269	49,352	5,519	6,023
Due to other financial institutions	485	297	485	297
Due to related entities	8,673	11,307	9,256	13,038
Total funding	61,427	60,956	15,260	19,358
Analysis of funding by geographical areas¹				
New Zealand	37,769	35,376	7,537	6,554
Australia and Asia-Pacific	9,910	12,542	6,933	12,006
United Kingdom and Europe	7,623	7,009	-	-
North America	6,125	6,029	790	798
Total funding	61,427	60,956	15,260	19,358
Analysis of funding by industry and economic sector				
Accommodation, cafes and restaurants	110	120	18	21
Agriculture, forestry and fishing	1,388	1,462	180	147
Construction	442	441	98	87
Finance and insurance	24,457	19,472	3,536	3,350
Government administration and defence	644	576	172	223
Manufacturing	816	1,017	241	314
Mining	24	21	2	1
Property	2,308	4,415	376	538
Services	3,317	3,245	696	631
Trade	862	839	210	163
Transport and storage	493	501	127	99
Utilities	334	797	144	424
Retail	16,769	15,817	7	6
Other	790	926	197	316
Subtotal	52,754	49,649	6,004	6,320
Due to related entities	8,673	11,307	9,256	13,038
Total funding	61,427	60,956	15,260	19,358

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

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

Note 44 Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 44 Credit risk (continued)

Mapping of the NZ Banking Group risk grades

NZ Banking Group's Customer Risk Grade	Standard & Poor's Rating	Moody's Rating	Supervisory Slotting Grade
A	AAA to AA-	Aaa to Aa3	Strong
B	A+ to A-	A1 to A3	Strong
C	BBB+ to BBB-	Baa1 to Baa3	Strong
D	BB+ to B+	Ba1 to B1	Good/satisfactory
NZ Banking Group Rating			
E	Watchlist		Weak
F	Specific mention		Weak
G	Substandard/default		Weak/default
H	Default		Default

The retail (program-managed) portfolio is segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristic(s) of default. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('EAD').

Use of internal credit risk estimates

The credit risk estimates are used for the following purposes:

Economic capital

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

Pricing

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

Provisioning

Loan loss provisions are reserves held by the NZ Banking Group to cover credit losses that are incurred in the loan portfolio. These provisions use the risk grading framework and PD, LGD and EADs assigned to each customer as the basis for the calculation. These estimates are then adjusted for the specific requirements of the NZ IFRS accounting standards.

Portfolio management

The Risk Rating System is a key input into the portfolio management processes as it provides a measure of overall risk at the portfolio, customer, facility or pool level.

Credit approval authorities

For Transaction-managed facilities the approval authorities are allocated based on the CRG with lower limits applicable for lower graded customers.

Risk-adjusted performance measurement

Business unit performance is measured using an economic profit framework which uses the allocated economic equity to measure the return earned.

Control mechanisms for the credit risk rating system

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

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

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

Note 44 Credit risk (continued)

Regulatory capital

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

Description of internal ratings process, by portfolio

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

Types of exposure included in the portfolio

Corporate, sovereign and banking exposures include:

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

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

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

(i) Probability of Default ('PD')

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

(ii) Loss Given Default ('LGD')

The LGD represents an estimate of the expected severity of a loss to the NZ Banking Group should a customer default occur during an economic downturn. The NZ Banking Group assigns an LGD to each credit facility, assuming an event of default has occurred, and taking into account a conservative estimate of the net realisable value of assets to which the NZ Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposure in the customer's capital and debt structure.

(iii) Exposure at Default and Credit Conversion Factor

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

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

Types of exposure included in the portfolio

Retail asset classes are split into the following categories of products:

Asset sub-classes	Product categories
Residential mortgages	■ Mortgages
Small business	■ Equipment finance
	■ Business overdrafts
	■ Business term loans
	■ Business credit cards
Other retail	■ Credit cards
	■ Personal loans
	■ Overdrafts

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

(i) General

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

(ii) Probability of Default

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

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

Note 44 Credit risk (continued)

(iii) Loss Given Default

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

(iv) Exposure at Default

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

(c) Reconciling financial statement and regulatory capital disclosure

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

Credit risk mitigation and limit control

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

Risk reduction

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

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

Risk transfer

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

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

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

Collateral valuation and management

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

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

Types of collateral taken

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

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

Guarantor/credit derivative counterparties

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

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

Market and/or credit risk concentrations

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

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

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

Note 44 Credit risk (continued)

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

Foreign exchange and derivative credit risk management

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

Risk-weighted exposures

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

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

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

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

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

Maximum exposure to credit risk

The NZ Banking Group and the NZ Branch's maximum exposure to credit risk as at 30 September 2009 was \$91,730 million and \$31,545 million (30 September 2008: \$88,758 million and \$32,016 million) respectively. The maximum exposure to credit risk is derived from aggregating the total on balance sheet and off balance sheet exposures of the NZ Banking Group and the NZ Branch respectively.

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Banking Group			
2009			
	Principal Amount \$m	Risk Weighting	Risk- weighted Exposure \$m
Cash and short-term claims on government	3,705	0%	-
Long-term claims on government	278	10%	28
Claims on banks	3,049	20%	610
Claims on public sector entities	286	20%	57
Residential mortgages	32,382	50%	16,191
Other assets	24,048	100%	24,048
Non-risk-weighted assets	9,696		
Total on-balance sheet exposures	73,444		40,934

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	523	50%	262
Total off-balance sheet securitised mortgage exposures	523		262

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk- weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	331	100%	331	84%	278
Total direct credit substitutes	331		331		278
Commitments					
Commitments with certain drawdown	25	100%	25	20%	5
Housing loan commitments with certain drawdown	179	100%	179	50%	90
Transaction related contingent items	649	50%	325	91%	295
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Short-term, self liquidating trade related contingent liabilities	740	20%	148	100%	148
Other commitments to provide financial services which have an original maturity of one year or more	9,705	50%	4,853	71%	3,426
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,134	0%	-	0%	-
Total commitments	17,432		5,530		3,964
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	60,503		3,117	50%	1,559
Swaps	23,094		1,632	23%	377
Interest rate contracts:					
Forwards	2,758		-	0%	-
Futures	14,145		-	0%	-
Options	4,016		32	50%	16
Swaps	226,997		5,201	29%	1,487
Total market related contracts (derivatives)	331,513		9,982		3,439
Total off-balance sheet and derivative exposures	349,276		15,843		7,681
Total risk-weighted exposures					48,877

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Banking Group			
2008			
	Principal Amount \$m	Risk Weighting	Risk- weighted Exposure \$m
Cash and short-term claims on government	1,684	0%	-
Long-term claims on government	146	10%	15
Claims on banks	4,134	20%	827
Claims on public sector entities	130	20%	26
Residential mortgages	31,216	50%	15,608
Other assets	25,755	100%	25,755
Non-risk-weighted assets	7,817		
Total on-balance sheet exposures	70,882		42,231

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	596	50%	298
Total off-balance sheet securitised mortgage exposures	596		298

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk- weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	310	100%	310	82%	254
Total direct credit substitutes	310		310		254
Commitments					
Commitments with certain drawdown	47	100%	47	20%	9
Housing loan commitments with certain drawdown	180	100%	180	50%	90
Transaction related contingent items	740	50%	370	92%	339
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Short-term, self liquidating trade related contingent liabilities	889	20%	178	100%	178
Other commitments to provide financial services which have an original maturity of one year or more	8,564	50%	4,282	69%	2,935
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	6,550	0%	-	0%	-
Total commitments	16,970		5,057		3,551
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	69,597		2,601	50%	1,301
Swaps	34,301		2,838	22%	629
Interest rate contracts:					
Forwards	10,248		5	40%	2
Futures	15,051		-	0%	-
Options	5,230		36	42%	15
Swaps	242,941		3,255	27%	882
Total market related contracts (derivatives)	377,368		8,735		2,829
Total off-balance sheet and derivative exposures	394,648		14,102		6,634
Total risk-weighted exposures					49,163

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch		
	2009		
	Principal Amount \$m	Risk Weighting	Risk-weighted Exposure \$m
Cash and short-term claims on government	1,138	0%	-
Long-term claims on government	228	10%	23
Claims on banks	995	20%	199
Claims on public sector entities	141	20%	28
Residential mortgages	-	50%	-
Other assets	12,308	100%	12,308
Non-risk-weighted assets	10,480		
Total on-balance sheet exposures	25,290		12,558

Calculation of off-balance sheet securitised mortgage exposures

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

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk-weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	285	100%	285	82%	234
Total direct credit substitutes	285		285		234
Commitments					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	370	50%	185	84%	155
Underwriting and sub-underwriting facilities	-	50%	-	100%	-
Short-term, self liquidating trade related contingent liabilities	62	20%	12	96%	12
Other commitments to provide financial services which have an original maturity of one year or more	3,381	50%	1,691	94%	1,589
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,157	0%	-	0%	-
Total commitments	5,970		1,888		1,756
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	60,503		3,117	50%	1,559
Swaps	33,267		1,884	23%	427
Interest rate contracts:					
Forwards	2,758		-	0%	-
Futures	14,145		-	0%	-
Options	4,016		32	50%	16
Swaps	254,924		5,280	28%	1,504
Total market related contracts (derivatives)	369,613		10,313		3,506
Total off-balance sheet and derivative exposures	375,868		12,486		5,496
Total risk-weighted exposures					18,054

Note 44 Credit risk (continued)

Calculation of on-balance sheet exposures

	NZ Branch		
	2008		
	Principal Amount \$m	Risk Weighting	Risk-weighted Exposure \$m
Cash and short-term claims on government	1,555	0%	-
Long-term claims on government	146	10%	15
Claims on banks	1,492	20%	298
Claims on public sector entities	185	20%	37
Residential mortgages	-	50%	-
Other assets	14,972	100%	14,972
Non-risk-weighted assets	7,492		
Total on-balance sheet exposures	25,842		15,322

Calculation of off-balance sheet securitised mortgage exposures

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

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk-weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	258	100%	258	77%	199
Total direct credit substitutes	258		258		199
Commitments					
Commitments with certain drawdown	-	100%	-	20%	-
Housing loan commitments with certain drawdown	-	100%	-	50%	-
Transaction related contingent items	460	50%	230	87%	200
Underwriting and sub-underwriting facilities	-	50%	-	100%	-
Short-term, self liquidating trade related contingent liabilities	101	20%	20	100%	20
Other commitments to provide financial services which have an original maturity of one year or more	3,104	50%	1,552	89%	1,381
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,251	0%	-	0%	-
Total commitments	5,916		1,802		1,601
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	69,597		2,601	50%	1,301
Swaps	43,572		3,158	22%	693
Interest rate contracts:					
Forwards	10,248		5	40%	2
Futures	15,051		-	0%	-
Options	5,230		36	42%	15
Swaps	292,724		3,375	27%	908
Total market related contracts (derivatives)	436,422		9,175		2,919
Total off-balance sheet and derivative exposures	442,596		11,235		4,719
Total risk-weighted exposures					20,041

Additional mortgage information

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

Residential mortgages by LVR

LVR range	NZ Banking Group		
	0-80%	2009 Unaudited 81-90%	Over 90%
Value of exposures (\$m)	24,165	5,273	3,148

Note 45 Concentration of credit exposures

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
On-balance sheet credit exposures consists of				
Cash and balances with central banks	798	1,286	584	1,174
Due from other financial institutions	843	1,222	841	558
Derivative financial instruments	6,328	5,137	6,306	5,125
Other trading securities	5,405	3,527	984	1,554
Loans	55,592	55,569	7,583	8,894
Life insurance assets	113	89	-	-
Due from related entities	2,759	2,170	8,595	7,787
Other assets	498	902	357	683
Total on-balance sheet credit exposures	72,336	69,902	25,250	25,775
Analysis of on-balance sheet credit exposures by geographical areas				
Within New Zealand	69,074	66,104	21,991	24,555
Australia and Asia-Pacific	2,929	3,798	2,926	1,220
United Kingdom and Europe	333	-	333	-
Total on-balance sheet credit exposures	72,336	69,902	25,250	25,775
Analysis of on-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	580	522	3	3
Agriculture, forestry and fishing	5,936	5,598	564	582
Construction	1,385	1,230	4	43
Finance and insurance	12,998	12,334	9,752	8,761
Government administration and defence	3,331	1,685	607	1,364
Manufacturing	2,263	2,594	859	1,057
Mining	323	312	264	264
Property	9,831	9,737	1,175	1,303
Property services and business services	1,790	1,924	420	553
Services	2,602	2,884	286	311
Trade	3,377	3,808	1,238	1,701
Transport and storage	1,372	1,284	686	667
Utilities	927	930	755	771
Retail lending	23,234	22,391	-	-
Other	149	269	67	137
Subtotal	70,098	67,502	16,680	17,517
Provisions for impairment on loans	(611)	(325)	(91)	(26)
Due from related entities	2,759	2,170	8,595	7,787
Other assets	90	555	66	497
Total on-balance sheet credit exposures	72,336	69,902	25,250	25,775
Off-balance sheet credit exposures				
Contingent liabilities and commitments	5,861	5,367	2,173	2,060
Total off-balance sheet credit exposures	5,861	5,367	2,173	2,060
Analysis of off-balance sheet credit exposures by industry and economic sector				
Accommodation, cafes and restaurants	32	32	8	12
Agriculture, forestry and fishing	198	207	58	69
Construction	288	239	99	47
Finance and insurance	288	284	221	166
Government administration and defence	193	289	110	211
Manufacturing	445	377	291	210
Mining	128	136	122	130
Property services and business services	780	422	287	299
Trade	366	428	123	196
Transport and storage	205	194	166	161
Utilities	696	543	688	534
Retail lending	2,242	2,191	-	-
Other	-	25	-	25
Total off-balance sheet credit exposures	5,861	5,367	2,173	2,060

Credit exposure is determined with reference to actual credit exposures.

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

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

Note 45 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

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

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

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

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

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

Note 46 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices. The NZ Banking Group's exposure to market risk arises out of its Financial Markets and Treasury activities.

Trading Value at Risk

Approach

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

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

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

VaR limits

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

The Group BRMC has approved a market risk VaR limit for the combined trading activities of FM and Group Treasury.

Backtesting

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

Stress testing

Daily stress testing against pre-determined scenarios is carried out to analyse potential losses beyond the 99% confidence level. An escalation framework around selective stress tests is approved by Group MARCO.

Profit and loss notification framework

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

Note 46 Market risk (continued)

Structure and organisation

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

Risk reporting

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

Risk mitigation

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

The following controls allow for continuous monitoring by management:

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

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

Non-traded risk (Interest rate risk in the banking book)

Approach

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

Asset and liability management

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

Material non-traded interest rate risk is managed in three centres. Sydney manages non-traded interest rate risk associated with the Australian balance sheet. The Wellington office manages non-traded interest rate risk associated with the New Zealand balance sheet. The London centre manages non-traded interest rate risk associated with all other locations. The risk from these three centres is monitored both at a local and aggregate level.

NII sensitivity

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

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

NaR limit

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

VaR limit

The Group BRMC has also approved an overall VaR limit for ALM. This limit is managed by the Group Treasurer and monitored by Market Risk Management.

Note 46 Market risk (continued)

Risk reporting

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

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

Risk mitigation

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

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

Equity risk

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

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach)' (BS2A). The peak-end-of-day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2009 (30 September 2008 for comparatives). The end-of-period exposures below have been calculated by determining the end-of-day aggregate market risk as at 30 September 2009, and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2009 (30 September 2008 for comparatives).

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

For each category of market risk, the peak end-of-day notional capital charge as a percentage of the Overseas Banking Group's equity is the peak end-of-day notional capital charge for that category of market risk divided by the Overseas Banking Group's equity as at 30 September 2009 (30 September 2008 for comparatives).

Market risk notional capital charges

The following table provides a summary of notional capital charges by risk type for the NZ Banking Group as at 30 September 2009.

Market risk	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %
End-of-period			
Interest risk	4,013	321	0.72
Foreign currency risk	13	1	0.00
Equity risk	37	3	0.01
Peak end-of-day			
Interest risk	9,025	722	1.62
Foreign currency risk	125	10	0.02
Equity risk	38	3	0.01

The following table provides a summary of notional capital charges by risk type for the NZ Banking Group as at 30 September 2008.

Market risk	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m	Notional Capital Charge as a Percentage of the Overseas Banking Group's Equity %
End-of-period			
Interest risk	3,538	283	1.20
Foreign currency risk	13	1	-
Equity risk	35	3	0.01
Peak end-of-day			
Interest risk	4,788	383	1.62
Foreign currency risk	175	14	0.06
Equity risk	38	3	0.01

Note 46 Market risk (continued)

Value at Risk

The following table provides a summary of VaR by risk type for the NZ Banking Group and the NZ Branch's trading and non-trading activities, as at the end of the financial year:

Trading

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest rate risk	1.9	3.4	1.9	3.4
Foreign currency risk	0.1	-	0.1	-
Price risk	0.1	-	0.1	-
Volatility risk	0.3	0.3	0.3	0.3
Net market risk	2.0	3.5	2.0	3.5

Non-trading

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Interest rate risk	1.3	0.9	1.6	2.0

Note 47 Interest rate risk

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

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 30 September 2009. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in Note 46.

	NZ Banking Group										Weighted Average Interest Rate % ¹
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2009				Non- interest Bearing \$m	Total \$m	
					2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m			
Financial assets											
Cash and balances with central banks	402	-	-	-	-	-	-	-	396	798	2.5
Due from other financial institutions	502	-	-	-	-	-	-	-	341	843	0.2
Derivative financial instruments	-	-	-	-	-	-	-	-	6,328	6,328	-
Other trading securities	1,281	2,269	1,287	-	139	78	2	349	-	5,405	3.1
Available-for-sale securities	-	-	-	-	-	-	-	-	37	37	-
Loans	23,568	7,820	10,606	7,460	4,340	1,202	1,096	111	(611)	55,592	6.8
Life insurance assets	23	-	-	-	-	-	-	-	90	113	2.7
Due from related entities	4	-	-	-	-	-	-	-	2,755	2,759	2.5
Investment in associate	-	-	-	-	48	-	-	-	-	48	4.7
Other assets	-	-	-	-	-	-	-	-	498	498	-
Total financial assets	25,780	10,089	11,893	7,460	4,527	1,280	1,098	460	9,834	72,421	
Non-financial assets										1,023	
Total assets											73,444
Financial liabilities											
Due to other financial institutions	160	58	15	-	-	-	-	-	252	485	2.9
Deposits at fair value	1,354	1,796	314	4	-	-	-	-	-	3,468	2.8
Deposits at amortised cost	16,256	5,925	6,846	1,208	127	44	151	1	2,386	32,944	3.2
Derivative financial instruments	-	-	-	-	-	-	-	-	6,970	6,970	-
Other trading liabilities at fair value	317	1,568	-	-	97	63	-	653	-	2,698	5.0
Debt issues	2,975	2,616	1,643	357	2,359	74	2,296	49	-	12,369	2.4
Other liabilities	-	-	-	-	-	-	-	-	633	633	-
Subordinated debentures	-	-	-	-	-	-	-	790	-	790	5.3
Due to related entities	5,151	8	61	-	48	-	-	-	3,405	8,673	2.5
Total financial liabilities	26,213	11,971	8,879	1,569	2,631	181	2,447	1,493	13,646	69,030	
Non-financial liabilities										509	
Total liabilities											69,539
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	4,138	3,908	(3,192)	(4,126)	(348)	(1,311)	1,001	(70)	-	-	

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

Notes to the financial statements

Note 47 Interest rate risk (continued)

	NZ Banking Group										
	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2008				Non-interest Bearing	Total	Weighted Average Interest Rate % ¹
					2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets											
Cash and balances with central banks	1,176	-	-	-	-	-	-	-	110	1,286	7.5
Due from other financial institutions	1,028	-	-	-	-	-	-	-	194	1,222	7.5
Derivative financial instruments	-	-	-	-	-	-	-	-	5,137	5,137	-
Other trading securities	1,038	1,464	976	-	-	44	-	5	-	3,527	7.7
Available-for-sale securities	-	-	-	-	-	-	-	-	35	35	-
Loans	22,122	7,786	9,781	8,310	4,125	2,767	960	43	(325)	55,569	9.4
Life insurance assets	18	-	-	-	-	-	-	-	71	89	6.4
Due from related entities	-	-	-	-	-	-	-	-	2,170	2,170	-
Investment in associate	-	-	-	-	-	48	-	-	-	48	8.8
Other assets	506	-	-	-	-	-	-	-	396	902	7.5
Total financial assets	25,888	9,250	10,757	8,310	4,125	2,859	960	48	7,788	69,985	
Non-financial assets										897	
Total assets										70,882	
Financial liabilities											
Due to other financial institutions	295	-	-	-	-	-	-	-	2	297	7.5
Deposits at fair value	222	2,500	1,424	14	3	-	-	-	-	4,163	7.9
Deposits at amortised cost	19,099	5,531	5,019	276	75	24	19	1	2,144	32,188	6.6
Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-
Other trading liabilities at fair value	894	-	35	-	-	5	33	134	-	1,101	7.5
Debt issues	7,952	1,036	853	539	362	310	-	50	-	11,102	4.4
Other liabilities	-	-	-	-	-	-	-	-	1,047	1,047	-
Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3
Due to related entities	8,794	-	-	61	-	48	-	-	2,404	11,307	7.5
Total financial liabilities	37,256	9,067	7,331	890	440	387	52	983	10,199	66,605	
Non-financial liabilities										145	
Total liabilities										66,750	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	7,360	6,995	(4,200)	(4,753)	(1,997)	(2,143)	(1,246)	(16)	-	-	

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

Note 47 Interest rate risk (continued)

	NZ Branch										Weighted Average Interest Rate % ¹
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	2009 3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- interest Bearing \$m	Total \$m	
Financial assets											
Cash and balances with central banks	370	-	-	-	-	-	-	-	214	584	2.5
Due from other financial institutions	500	-	-	-	-	-	-	-	341	841	0.2
Derivative financial instruments	-	-	-	-	-	-	-	-	6,306	6,306	-
Other trading securities	128	228	129	-	132	47	-	320	-	984	3.1
Loans	3,977	3,448	54	21	78	10	7	79	(91)	7,583	4.0
Due from related entities	4,435	-	-	-	-	-	-	-	4,160	8,595	2.5
Other assets	-	-	-	-	-	-	-	-	357	357	-
Total financial assets	9,410	3,676	183	21	210	57	7	399	11,287	25,250	
Non-financial assets										40	
Total assets										25,290	
Financial liabilities											
Due to other financial institutions	160	58	15	-	-	-	-	-	252	485	2.9
Deposits at amortised cost	2,737	685	316	11	-	-	1	-	166	3,916	2.5
Derivative financial instruments	-	-	-	-	-	-	-	-	6,970	6,970	-
Other trading liabilities at fair value	-	-	-	-	97	63	-	653	-	813	5.6
Other liabilities	-	-	-	-	-	-	-	-	122	122	-
Subordinated debentures	-	-	-	-	-	-	-	790	-	790	5.3
Due to related entities	6,033	-	-	-	-	-	-	-	3,223	9,256	2.5
Total financial liabilities	8,930	743	331	11	97	63	1	1,443	10,733	22,352	
Non-financial liabilities										262	
Total liabilities										22,614	
Off-balance sheet financial instruments											
Net interest rate contracts (notional):											
Receivable/(payable)	1,490	(4,803)	954	(707)	2,577	(236)	796	(71)	-	-	

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

Notes to the financial statements

Note 47 Interest rate risk (continued)

	NZ Branch																																																																																																																																																																																																																						
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	2008 3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non-interest Bearing \$m	Total \$m	Weighted Average Interest Rate % ¹																																																																																																																																																																																																												
Financial assets																																																																																																																																																																																																																							
Cash and balances with central banks	1,174	-	-	-	-	-	-	-	-	1,174	7.5																																																																																																																																																																																																												
Due from other financial institutions	364	-	-	-	-	-	-	-	194	558	7.5																																																																																																																																																																																																												
Derivative financial instruments	-	-	-	-	-	-	-	-	5,125	5,125	-																																																																																																																																																																																																												
Other trading securities	626	546	364	-	-	16	-	2	-	1,554	7.7																																																																																																																																																																																																												
Loans	5,120	3,586	127	20	9	47	4	7	(26)	8,894	8.6																																																																																																																																																																																																												
Due from related entities	5,438	-	-	-	-	-	-	-	2,349	7,787	7.5																																																																																																																																																																																																												
Other assets	506	-	-	-	-	-	-	-	177	683	7.5	Total financial assets	13,228	4,132	491	20	9	63	4	9	7,819	25,775		Non-financial assets										67		Total assets										25,842		Financial liabilities												Due to other financial institutions	295	-	-	-	-	-	-	-	2	297	7.5	Deposits at amortised cost	3,457	333	185	28	6	-	-	1	114	4,124	7.6	Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-	Other trading liabilities at fair value	894	-	35	-	-	5	33	134	-	1,101	7.5	Other liabilities	-	-	-	-	-	-	-	-	405	405	-	Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3	Due to related entities	10,750	-	-	-	-	-	-	-	2,288	13,038	7.5	Total financial liabilities	15,396	333	220	28	6	5	33	933	7,411	24,365		Non-financial liabilities										19		Total liabilities										24,384		Off-balance sheet financial instruments												Net interest rate contracts (notional):												Receivable/(payable)	1,496	(3,489)	(742)	1,846	1,116	32	(341)	82	-	-	
Total financial assets	13,228	4,132	491	20	9	63	4	9	7,819	25,775																																																																																																																																																																																																													
Non-financial assets										67		Total assets										25,842		Financial liabilities												Due to other financial institutions	295	-	-	-	-	-	-	-	2	297	7.5	Deposits at amortised cost	3,457	333	185	28	6	-	-	1	114	4,124	7.6	Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-	Other trading liabilities at fair value	894	-	35	-	-	5	33	134	-	1,101	7.5	Other liabilities	-	-	-	-	-	-	-	-	405	405	-	Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3	Due to related entities	10,750	-	-	-	-	-	-	-	2,288	13,038	7.5	Total financial liabilities	15,396	333	220	28	6	5	33	933	7,411	24,365		Non-financial liabilities										19		Total liabilities										24,384		Off-balance sheet financial instruments												Net interest rate contracts (notional):												Receivable/(payable)	1,496	(3,489)	(742)	1,846	1,116	32	(341)	82	-	-																									
Total assets										25,842																																																																																																																																																																																																													
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Derivative financial instruments	-	-	-	-	-	-	-	-	4,602	4,602	-																																																																																																																																																																																																												
Other trading liabilities at fair value	894	-	35	-	-	5	33	134	-	1,101	7.5																																																																																																																																																																																																												
Other liabilities	-	-	-	-	-	-	-	-	405	405	-																																																																																																																																																																																																												
Subordinated debentures	-	-	-	-	-	-	-	798	-	798	5.3																																																																																																																																																																																																												
Due to related entities	10,750	-	-	-	-	-	-	-	2,288	13,038	7.5	Total financial liabilities	15,396	333	220	28	6	5	33	933	7,411	24,365		Non-financial liabilities										19		Total liabilities										24,384		Off-balance sheet financial instruments												Net interest rate contracts (notional):												Receivable/(payable)	1,496	(3,489)	(742)	1,846	1,116	32	(341)	82	-	-																																																																																																																																					
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¹ The weighted average interest rate is calculated excluding non-interest bearing assets and liabilities.

Note 48 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 the reporting period spot foreign exchange rates.

	NZ Banking Group		NZ Branch	
	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Receivable/(payable)				
Australian dollar	(2)	1	(2)	1
Euro	(1)	-	(1)	-
Great British pound	-	1	-	1
Japanese yen	-	(1)	-	(1)
United States dollar	(3)	(10)	(3)	(10)
Others	2	1	2	1

Auditors' report



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Auditors' Report

To the Directors of Westpac Banking Corporation

We have examined pages 15 to 89 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 8 and Clauses 19 and 20 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2008 (the '**Order**'). The financial statements provide information about the past financial performance and cash flows of Westpac Banking Corporation – New Zealand Branch (the '**NZ Branch**') and the aggregated results of Westpac Banking Corporation New Zealand Division (the '**NZ Banking Group**') for the year ended 30 September 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 20 to 31 and the requirements of the Order.

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

Directors' Responsibilities

The NZ Banking Group financial statements are signed by the Responsible Person on behalf of the Directors of Westpac Banking Corporation. The Directors are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2009 and their financial performance and cash flows for the year ended on that date and which are not false or misleading. The General Disclosure Statement also includes supplementary information which complies with Schedules 3 to 8 of the Order.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements and the supplementary information disclosed in accordance with Clause 22, Schedules 4 to 8, and Clauses 19 and 20 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information disclosed in Notes 31, 37, 38, 39, 44, 45 and 46), we are responsible for auditing these financial statements in order to state whether, on the basis of the procedures described below, these financial statements give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46), we are responsible for auditing the disclosures in order to state whether, on the basis of the procedures described below, the disclosures are fairly stated in accordance with Schedules 4 and 6 to 8 of the Order, and for reporting our findings to you.

In respect of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44, and 46, we are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

- (i) prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and
- (ii) disclosed in accordance with Schedule 5 of the Order

and for reporting our findings to you.

Auditors' report (continued)



Auditors' Report

To the Directors of Westpac Banking Corporation

Basis of Opinions

An audit of the financial statements includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46). It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the NZ Branch and the NZ Banking Group, consistently applied and adequately disclosed.

We conducted our audit of the financial statements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46) in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our examination of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46 has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of the NZ Branch and the 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 on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46 and, accordingly, we do not express an audit opinion on that supplementary information.

We carry out other assignments on behalf of the NZ Branch and the NZ Banking Group in the area of taxation and other assurance advice. In addition, certain partners and employees of our firm may deal with the NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Branch, the NZ Banking Group and Westpac Banking Corporation Group. We have no other interests in the NZ Branch, the NZ Banking Group or Westpac Banking Corporation Group.

Unqualified Audit Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the NZ Branch and the NZ Banking Group as far as appears from our examination of those records;
- (b) the financial statements on pages 15 to 89 (excluding the supplementary information disclosed in Notes 31, 37, 38, 39, 44, 45 and 46):
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards; and
 - (iii) give a true and fair view of the financial position of the NZ Branch and the NZ Banking Group as at 30 September 2009 and their financial performance and cash flows for the year ended on that date.
- (c) the supplementary information disclosed in Notes 31, 37, 38 and 45 prescribed by Schedules 4 and 6 to 8 and Clauses 19 and 20 of Schedule 3 of the Order fairly states the matters to which it relates in accordance with those Schedules.

Auditors' report (continued)



Auditors' Report

To the Directors of Westpac Banking Corporation

Unqualified Review Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 39, 44 and 46, as required by Schedule 5 of the Order, is not in all material respects:

- (i) prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A), and
- (ii) disclosed in accordance with Schedule 5 of the Order.

Our work was completed on 3 December 2009 and our unqualified opinions are expressed as at that date.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers". Below the signature is a long, horizontal, slightly curved line.

Chartered Accountants

Auckland

