



Westpac New Zealand Limited Disclosure Statement

For the nine months ended 30 June 2011

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General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011 ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Banking Group as at 30 September 2010 are set out in Note 26 to the Bank's financial statements included in the General Disclosure Statement for the year ended 30 September 2010. Except as detailed in Note 9 to the financial statements included in this Disclosure Statement, there have been no other changes in the composition of the Banking Group since 30 September 2010.

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

General matters

Details of the Ultimate Parent Bank

The ultimate parent bank of the Bank is Westpac Banking Corporation ('**Ultimate Parent Bank**'), a company incorporated in Australia. There has been no change in the Ultimate Parent Bank since 30 September 2010. There have been no changes to the name or address for service of the Ultimate Parent Bank since 30 September 2010. The Westpac Banking Corporation Group (otherwise referred to as the '**Ultimate Parent Bank Group**') refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

Limits on material financial support by the Ultimate Parent Bank

Since 30 September 2010, there has been no material change in the regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of the Ultimate Parent Bank to provide material financial support to the Bank.

Directors

The following changes in the composition of the Board of Directors of the Bank (the '**Board**') have been effected since 30 September 2010:

- Elizabeth Blomfield Bryan resigned from the Board with effect from 21 October 2010;
- Christopher John David Moller was appointed to the Board with effect from 12 November 2010; and
- Harold Maffey Price retired and Janice Amelia Dawson was appointed to the Board, both with effect from 19 July 2011.

Credit ratings

The Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date the Directors signed this Disclosure Statement:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA	Stable
Moody's Investors Service	Aa3	Stable
Standard & Poor's	AA	Stable

On 27 May 2011, the Bank's credit rating issued by Moody's Investors Service was downgraded from Aa2 to Aa3 with a 'stable' outlook.

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

Guarantee arrangements

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

Government guarantees

As at the beginning of the nine months ended 30 June 2011, the Bank had the following guarantees with the New Zealand Government ('**Crown**');

- a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together the '**Wholesale Guarantee**');
- a Crown Deed of Guarantee dated 11 November 2008, amended by a supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**'); and
- a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**').

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

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued.

A description of the Wholesale Guarantee is set out below.

Further information about the Wholesale Guarantee, and the expired Deposit Guarantee and Revised Deposit Guarantee, is available from the Treasury internet site www.treasury.govt.nz.

Guarantee arrangements (continued)

Wholesale Guarantee

The guarantor of the Bank's obligations under the Wholesale Guarantee is the Crown. The Crown's address for service in relation to the Wholesale Guarantee is:

- (i) Minister of Finance, Parliament Buildings, Wellington; or
 - (ii) New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or
 - (iii) New Zealand Consul and Trade Commissioner at the address of the New Zealand Consulate-General in New York for the time being;
- in each case with a copy (with delivery made by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Wholesale Guarantee is included in the Bank's General Disclosure Statement for the year ended 30 September 2010. A copy of the Bank's General Disclosure Statement for the year ended 30 September 2010 is available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

Summary of obligations guaranteed

The obligations guaranteed by the Crown under the Wholesale Guarantee are obligations of the Bank to pay money to a Beneficiary (as defined below) under a Guaranteed Liability. A Guaranteed Liability is a liability to pay principal or interest in respect of which the Crown has issued a Guarantee Eligibility Certificate under the Wholesale Guarantee.

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

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

Expiry and Withdrawal of the Wholesale Guarantee

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

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

- (i) the scheduled maturity date of the security under which that Guaranteed Liability arises; and
- (ii) the date falling five years after the issue date of the security under which that Guaranteed Liability arises.

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

There have been no changes to the terms of the Wholesale Guarantee since the date of signing of the Bank's General Disclosure Statement for the year ended 30 September 2010.

Pending proceedings or arbitration

There are no legal proceedings or arbitration pending as at the date this Disclosure Statement is signed that may have a material adverse effect on the Bank or the Banking Group, whether in New Zealand or elsewhere.

A description of the contingent liabilities of the Banking Group is set out in Note 10 to the financial statements.

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 30 June 2011, are as follows:

1. That the Banking Group complies with the following requirements:
 - (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand ('Reserve Bank') document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 8%;
 - (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 4%; and
 - (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than \$30 million.

For the purposes of this condition of registration the scalar referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is 1.06.

1A. That:

- (a) the Bank has an internal capital adequacy assessment process ('ICAAP') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('ICAAP') (BS12) dated December 2007;
 - (b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011; and
 - (c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.
- 1B. That the Banking Group complies with all requirements set out in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011.
 2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

Conditions of registration (continued)

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition:

- (a) 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;
- (b) in measuring the size of the Banking Group's insurance business:
- (i) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
- (A) the total consolidated assets of the group headed by that entity; or
- (B) 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;
- (ii) 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;
- (iii) the amounts measured in relation to subparagraphs (i) and (ii) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in subparagraphs (i) and (ii) 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;
- (iv) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank document entitled 'Connected exposures policy' (BS8) dated June 2011.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
- 5A. Before and on 31 March 2012, that the Bank complies with the following corporate governance requirements:
- (a) the Board of the Bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank or any other entity capable of controlling or significantly influencing the Bank;
- (b) the chairperson of the Bank's Board must not be an employee of the Bank; and
- (c) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
6. On and after 1 April 2012, that the Bank complies with the following corporate governance requirements:
- (a) the Board of the Bank must have at least five directors;
- (b) the majority of the Board members must be non-executive directors;
- (c) at least half of the Board members must be independent directors;
- (d) an alternate director:
- (i) for a non-executive director must be non-executive; and
- (ii) for an independent director must be independent;
- (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
- (f) the chairperson of the Board of the Bank must be independent; and
- (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.

Conditions of registration (continued)

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:
 - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. On and after 1 April 2012, that a person must not be appointed as chairperson of the Board of the Bank unless:
 - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (b) the Reserve Bank has advised that it has no objection to that appointment.
9. On and after 1 April 2012, that the Bank has a Board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
 - (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the Bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
 - (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
 - (b) that the Bank's financial risk positions on a day can be identified on that day;
 - (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
 - (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

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

Until 30 September 2011, services provided by Payments New Zealand Limited, and related settlement services provided to the Bank by Westpac Banking Corporation, are not covered by this condition.
12. That:
 - (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;
 - (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and
 - (c) all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.
- 13A. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:
 - (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
 - (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
 - (c) the one-year core funding ratio of the Banking Group is not less than 65% at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2011 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.

This condition does not apply on or after 1 July 2011.
14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:
 - (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
 - (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
 - (c) the one-year core funding ratio of the Banking Group is not less than 70% at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2011 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.

This condition applies on and after 1 July 2011.
15. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
 - (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

Conditions of registration (continued)

16. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition:

'total assets' means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

'SPV' means a person:

- (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

'covered bond' means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

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

The Bank's conditions of registration were changed on 24 June 2011, with effect from 30 June 2011 (except as provided otherwise in the conditions of registration). These changes reflect:

- an increase in the Banking Group's core funding ratio from 65% to 70% effective on 1 July 2011;
- amendments to the 'Capital Adequacy Framework (internal models based approach)' (BS2B) and a consequential amendment to the 'Connected exposures policy' (BS8); and
- the removal of previous condition 13B in relation to the Bank's internal framework for liquidity risk management, which only applied until 31 March 2011.

Proposed transfer of additional banking operations to Westpac New Zealand Limited

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

Following an independent review of the structure of the operating model of the Ultimate Parent Bank's business in New Zealand, the Reserve Bank, the Bank and the Ultimate Parent Bank have reached high level agreement on changes to the operating model. Under that agreement, the NZ Branch will transfer the following additional business activities and associated employees to the Bank:

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

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

As at 30 June 2011, business activities proposed to be transferred to the Bank include: customer loans of approximately \$6.2 billion (30 September 2010: \$6.7 billion) and customer deposits of approximately \$5.8 billion (30 September 2010: \$5.5 billion). It is currently anticipated that term intra-group funding of approximately \$3.1 billion will be put in place. In addition, for the nine months ended 30 June 2011, it is estimated that the business activities to be transferred to the Bank had aggregate revenues of approximately \$120 million (12 months ended 30 September 2010: \$167 million) and aggregate net profit after tax of approximately \$74 million (12 months ended 30 September 2010: \$107 million).

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

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

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

Other material matters

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

Directors' statement

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

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

Each Director of the Bank believes, after due enquiry, that, over the nine months ended 30 June 2011:

- (a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;
- (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Peter David Wilson



Philip Matthew Coffey




George Frazis

Christopher John David Moller



Janice Amelia Dawson



Ralph Graham Waters



Dated this 12th day of August 2011

Consolidated financial statements

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Consolidated income statement for the nine months ended 30 June 2011

		The Banking Group		
		Nine Months Ended 30 June 2011 Unaudited \$m	Nine Months Ended 30 June 2010 Unaudited \$m	Year Ended 30 September 2010 Audited \$m
	Note			
Interest income		2,642	2,611	3,501
Interest expense		(1,691)	(1,759)	(2,337)
Net interest income		951	852	1,164
Non-interest income:				
Fees and commissions	2	223	215	287
Gains on ineffective hedges	2	3	3	3
Other non-interest income/(expense)	2	1	(6)	1
Total non-interest income		227	212	291
Net operating income		1,178	1,064	1,455
Operating expenses		(573)	(518)	(704)
Impairment charges on loans	3	(189)	(234)	(334)
Operating profit		416	312	417
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		416	312	418
Income tax expense		(129)	(99)	(132)
Profit after income tax expense		287	213	286
Profit after income tax expense attributable to:				
Owners of the Banking Group		284	211	283
Non-controlling interests		3	2	3
		287	213	286

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the nine months ended 30 June 2011

	The Banking Group		
	Nine Months Ended 30 June 2011 Unaudited \$m	Nine Months Ended 30 June 2010 Unaudited \$m	Year Ended 30 September 2010 Audited \$m
Profit after income tax expense	287	213	286
Other comprehensive income:			
Net unrealised gains from changes in fair value of available-for-sale securities	25	7	7
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	(55)	10	16
Transferred to the income statement	4	4	6
Actuarial gains/(losses) on employee defined benefit superannuation schemes	-	7	(27)
Income tax relating to components of other comprehensive income ¹	9	(7)	-
Other comprehensive (expense)/income, net of tax	(17)	21	2
Total comprehensive income	270	234	288
Total comprehensive income attributable to:			
Owners of the Banking Group	267	232	285
Non-controlling interests	3	2	3
	270	234	288

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

Tax effects relating to each component of other comprehensive (expense)/income

	The Banking Group		
	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	Net of Tax Amount \$m
For the nine months ended 30 June 2011 (Unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	25	(7)	18
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(55)	17	(38)
Transferred to the income statement	4	(1)	3
Actuarial gains on employee defined benefit superannuation schemes	-	-	-
Other comprehensive expense	(26)	9	(17)
For the nine months ended 30 June 2010 (Unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	7	-	7
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	10	(3)	7
Transferred to the income statement	4	(2)	2
Actuarial gains on employee defined benefit superannuation schemes	7	(2)	5
Other comprehensive income	28	(7)	21
For the year ended 30 September 2010 (Audited)			
Net unrealised gains from changes in fair value of available-for-sale securities	7	-	7
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	16	(6)	10
Transferred to the income statement	6	(2)	4
Actuarial losses on employee defined benefit superannuation schemes	(27)	8	(19)
Other comprehensive income	2	-	2

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the nine months ended 30 June 2011

The Banking Group

	Share Capital \$m	Retained Profits \$m	Available- for-sale Securities Reserve \$m	Cash Flow Hedge Reserve \$m	Total before Non- controlling Interests \$m	Non- controlling Interests \$m	Total \$m
As at 1 October 2009	3,470	284	18	(15)	3,757	7	3,764
Nine months ended 30 June 2010							
Profit after income tax expense	-	211	-	-	211	2	213
Other comprehensive income	-	5	7	9	21	-	21
Total comprehensive income for the nine months ended 30 June 2010	-	216	7	9	232	2	234
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(3)	(3)
As at 30 June 2010 (Unaudited)	3,470	500	25	(6)	3,989	6	3,995
Year ended 30 September 2010							
Profit after income tax expense	-	283	-	-	283	3	286
Other comprehensive (expense)/income	-	(19)	7	14	2	-	2
Total comprehensive income for the year ended 30 September 2010	-	264	7	14	285	3	288
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 30 September 2010 (Audited)	3,470	548	25	(1)	4,042	6	4,048
Nine months ended 30 June 2011							
Profit after income tax expense	-	284	-	-	284	3	287
Other comprehensive income/(expense)	-	-	18	(35)	(17)	-	(17)
Total comprehensive income/(expense) for the nine months ended 30 June 2011	-	284	18	(35)	267	3	270
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(2)	(2)
As at 30 June 2011 (Unaudited)	3,470	832	43	(36)	4,309	7	4,316

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 30 June 2011

		The Banking Group		
		30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Note				
Assets				
	Cash and balances with central banks	434	173	522
	Due from other financial institutions	34	2	3
	Derivative financial instruments	17	15	17
	Trading securities	2,847	3,454	2,587
	Available-for-sale securities	1,116	44	44
	Loans	50,671	49,712	50,034
	Due from related entities	537	654	830
	Current tax assets	33	33	-
	Investment in associate	48	48	48
	Goodwill and other intangible assets	559	570	567
	Property, plant and equipment	153	117	127
	Deferred tax assets	241	234	257
	Other assets	197	144	143
	Total assets	56,887	55,200	55,179
Liabilities				
	Deposits at fair value	1,555	2,086	1,990
	Deposits at amortised cost	32,026	29,830	30,476
	Derivative financial instruments	75	-	-
	Debt issues	15,138	16,729	15,439
	Current tax liabilities	-	-	14
	Provisions	66	76	73
	Other liabilities	497	466	541
	Total liabilities excluding perpetual subordinated notes and due to related entities	49,357	49,187	48,533
	Perpetual subordinated notes	970	970	970
	Total liabilities excluding due to related entities	50,327	50,157	49,503
	Due to related entities	2,244	1,048	1,628
	Total liabilities	52,571	51,205	51,131
	Net assets	4,316	3,995	4,048
Equity				
	Share capital	3,470	3,470	3,470
	Retained profits	832	500	548
	Available-for-sale securities reserve	43	25	25
	Cash flow hedge reserve	(36)	(6)	(1)
	Total equity attributable to owners of the Banking Group	4,309	3,989	4,042
	Non-controlling interests	7	6	6
	Total equity	4,316	3,995	4,048
	Interest earning and discount bearing assets	55,944	54,506	54,051
	Interest and discount bearing liabilities	47,348	47,569	46,978

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the nine months ended 30 June 2011

	The Banking Group		
	Nine Months Ended 30 June 2011 Unaudited \$m	Nine Months Ended 30 June 2010 Unaudited \$m	Year Ended 30 September 2010 Audited \$m
Cash flows from operating activities			
Interest income received	2,645	2,611	3,499
Interest expense paid	(1,730)	(1,767)	(2,306)
Non-interest income received	296	222	306
Net (increase)/decrease in trading securities	(260)	967	1,834
Net decrease in trading liabilities	-	(1,885)	(1,880)
Operating expenses paid	(522)	(454)	(629)
Income tax paid	(153)	(125)	(125)
Net cash provided by/(used in) operating activities	276	(431)	699
Cash flows from investing activities			
Purchase of available-for-sale securities	(1,047)	-	-
Net loans advanced to customers	(826)	(1,772)	(2,200)
Net decrease/(increase) in due from related entities	293	(64)	(242)
Net increase in other assets	(53)	(10)	(8)
Purchase of capitalised computer software	(25)	(26)	(35)
Purchase of property, plant and equipment	(46)	(44)	(59)
Proceeds from disposal of property, plant and equipment	-	1	1
Net cash used in investing activities	(1,704)	(1,915)	(2,543)
Cash flows from financing activities			
Net increase/(decrease) in deposits	1,115	(579)	(29)
Net (payments of)/proceeds from debt issues	(301)	4,360	3,070
Net increase/(decrease) in due to related entities	554	(1,422)	(834)
Net increase/(decrease) in other liabilities	5	(51)	(50)
Payment of dividends	(2)	(3)	(4)
Net cash provided by financing activities	1,371	2,305	2,153
Net (decrease)/increase in cash and cash equivalents	(57)	(41)	309
Cash and cash equivalents at beginning of the period/year	525	216	216
Cash and cash equivalents at end of the period/year	468	175	525
Cash and cash equivalents comprise:			
Cash and balances with central banks	434	173	522
Due from other financial institutions	34	2	3
Cash and cash equivalents at end of the period/year	468	175	525
Reconciliation of profit after income tax expense to net cash provided by/(used in) operating activities			
Profit after income tax expense	287	213	286
<i>Adjustments:</i>			
Software amortisation costs	33	31	43
Impairment charges on loans	189	234	334
Depreciation on property, plant and equipment	19	18	23
Loss on disposal of property, plant and equipment	1	-	-
Share-based payments	12	2	2
Movement in accrued assets	-	8	7
Movement in accrued liabilities and provisions	(56)	-	43
Movement in current and deferred tax	(31)	(26)	7
Tax on available-for-sale reserve	(7)	-	-
Movement in trading securities	(260)	967	1,834
Movement in trading liabilities	-	(1,885)	(1,885)
Movement in derivative financial instruments	89	7	5
Net cash provided by/(used in) operating activities	276	(431)	699

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

These consolidated financial statements have been prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, and the New Zealand equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the General Disclosure Statement for the year ended 30 September 2010.

These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2010, the following standards, interpretations and amendments have been adopted with effect from 1 October 2010 in the preparation of these financial statements:

- New Zealand equivalent to International Financial Reporting Standard ('**NZ IFRS**') 2 *Share-based Payment – Amendment: Group Cash-settled Share-based Payment Transactions* – The amendments clarify the scope of NZ IFRS 2 *Share-based Payment* by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- NZ IAS 1 *Presentation of Financial Statements* (revised) – The amendments clarify that the terms of a liability, which could be settled at any time by the issuance of equity instruments at the option of the counterparty, do not affect its classification.
- NZ IAS 7 *Statement of Cash Flows* – The amendments clarify that only expenditure which results in a recognised asset can be classified as cash flows from investing activities.
- NZ IAS 17 *Leases* – The amendment has removed specific guidance on classifying land as a lease.
- NZ IAS 32 *Financial Instruments: Presentation* – The amendments clarify the classification of rights issues.

Adoption of these new and revised accounting standards has not resulted in any material change to the Banking Group's reported result or financial position.

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

- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'); and
- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').

Controlled entities of the Banking Group as at 30 September 2010 are set out in Note 26 to the Banking Group's financial statements included in the General Disclosure Statement for the year ended 30 September 2010. Except as detailed in Note 9 to these financial statements, there have been no other changes to the composition of the Banking Group since 30 September 2010.

These financial statements were authorised for issue by the Board on 12 August 2011. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the General Disclosure Statement for the year ended 30 September 2010, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the 'Statutory base' section above.

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

Principles of consolidation

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

Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date on which control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Banking Group.

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

Non-controlling interests are stated at the proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Notes to the financial statements

Note 2 Non-interest income

	The Banking Group		
	Nine Months Ended 30 June 2011 Unaudited \$m	Nine Months Ended 30 June 2010 Unaudited \$m	Year Ended 30 September 2010 Audited \$m
Fees and commissions			
Transaction fees and commissions	157	155	206
Lending fees (loan and risk)	41	34	46
Management fees received from related entities	2	2	2
Insurance commissions received	13	12	16
Other non-risk fee income	10	12	17
Total fees and commissions	223	215	287
Gains on ineffective hedges	3	3	3
Other non-interest income/(expense)			
Net unrealised losses on derivatives held for risk management purposes	(2)	(9)	(4)
Dividend income	2	2	2
Loss on disposal of property, plant and equipment	(1)	-	-
Other	2	1	3
Total other non-interest income/(expense)	1	(6)	1
Total non-interest income	227	212	291

Note 3 Impairment charges on loans

	The Banking Group			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Nine months ended 30 June 2011 (Unaudited)				
Collectively assessed provisions	(3)	(22)	(33)	(58)
Individually assessed provisions	66	-	161	227
Bad debt write-off direct to the income statement	3	32	14	49
Interest adjustments	(5)	(11)	(13)	(29)
Total impairment charges on loans	61	(1)	129	189
Nine months ended 30 June 2010 (Unaudited)				
Collectively assessed provisions	37	44	(14)	67
Individually assessed provisions	61	-	82	143
Bad debt write-off direct to the income statement	7	40	9	56
Interest adjustments	(3)	(14)	(15)	(32)
Total impairment charges on loans	102	70	62	234
Year ended 30 September 2010 (Audited)				
Collectively assessed provisions	38	44	(30)	52
Individually assessed provisions	83	-	172	255
Bad debt write-off direct to the income statement	9	54	6	69
Interest adjustments	(5)	(18)	(19)	(42)
Total impairment charges on loans	125	80	129	334

Note 4 Trading securities

	The Banking Group		
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Trading securities			
Listed:			
NZ Government securities	1,200	2,260	1,381
Total listed securities	1,200	2,260	1,381
Unlisted:			
NZ corporate securities:			
Certificates of deposit	1,464	1,194	1,206
Offshore securities	183	-	-
Total unlisted securities	1,647	1,194	1,206
Total trading securities	2,847	3,454	2,587

As at 30 June 2011, no trading securities in the Banking Group (30 June 2010: nil, 30 September 2010: nil) were encumbered through repurchase agreements.

Note 5 Loans

	The Banking Group		
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Overdrafts	880	957	1,003
Credit card outstandings	1,279	1,248	1,250
Money market loans	584	628	590
Term loans:			
Housing	34,751	33,981	34,249
Non-housing	13,554	13,320	13,386
Other	267	251	285
Total gross loans	51,315	50,385	50,763
Provisions for impairment charges on loans	(644)	(673)	(729)
Total net loans	50,671	49,712	50,034

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 6 to the financial statements.

On 22 November 2010, Westpac NZ Covered Bond Limited ('WNZCBL') was incorporated, as part of the Banking Group's global covered bond programme, to hold a portion of the Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by Westpac Securities NZ Limited ('WSNZL'). WSNZL is an indirect, wholly-owned subsidiary company of the Bank. Each guarantee provided by WNZCBL is secured by the housing loans from time to time held by WNZCBL. As at 30 June 2011, the value of the housing loans held by WNZCBL (being the underlying collateral for those guarantees) was \$2.75 billion (30 June 2010: nil, 30 September 2010: nil). These housing loans have not been derecognised from the Bank's financial statements as the Bank retains all of the risks and rewards of ownership. During the three months ended 30 June 2011, WSNZL issued \$1.8 billion of covered bonds during its initial offer under this programme, with a maturity date of 16 June 2016.

Notes to the financial statements

Note 6 Credit quality, impaired assets and provisions for impairment charges on loans

	The Banking Group			
	Nine Months Ended 30 June 2011 (Unaudited)			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
Total neither past due nor impaired	33,311	1,618	13,588	48,517
Past due assets				
Less than 30 days past due	922	95	307	1,324
At least 30 days but less than 60 days past due	120	21	79	220
At least 60 days but less than 90 days past due	59	11	31	101
At least 90 days past due	119	19	200	338
Total past due assets^{1, 2}	1,220	146	617	1,983
Individually impaired assets²				
Balance at beginning of the period	302	-	440	742
Additions	244	-	405	649
Amounts written off	(82)	-	(198)	(280)
Returned to performing or repaid	(245)	-	(52)	(297)
Balance at end of the period	219	-	595	814
Restructured assets				
Balance at beginning of the period	-	-	-	-
Additions	1	-	-	1
Balance at end of the period	1	-	-	1
Total impaired assets	220	-	595	815
Total gross loans³	34,751	1,764	14,800	51,315
Individually assessed provisions				
Balance at beginning of the period	80	-	221	301
Impairment charges on loans:				
New provisions	85	-	172	257
Recoveries	(6)	-	-	(6)
Reversal of previously recognised impairment charges on loans	(13)	-	(11)	(24)
Amounts written off	(80)	-	(184)	(264)
Interest adjustments	3	-	3	6
Balance at end of the period	69	-	201	270
Collectively assessed provisions				
Balance at beginning of the period	80	104	273	457
Impairment charges on loans	(3)	(22)	(33)	(58)
Balance at end of the period	77	82	240	399
Total provisions for impairment charges on loans and credit commitments	146	82	441	669
Provision for credit commitments	-	-	(25)	(25)
Total provisions for impairment charges on loans	146	82	416	644
Total net loans	34,605	1,682	14,384	50,671

As at 30 June 2011, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual⁴, past due, restructured or potential problem loans⁴, if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.

2 The Banking Group has an undrawn balance of \$5 million on individually impaired assets under loans for business purposes as at 30 June 2011.

3 The Banking Group does not have other assets under administration.

4 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US Securities and Exchange Commission reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Notes to the financial statements

Note 7 Deposits

	The Banking Group		
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Deposits at fair value			
Certificates of deposit	1,469	1,975	1,902
Call and Term deposits	86	111	88
Total deposits at fair value	1,555	2,086	1,990
Deposits at amortised cost			
Non-interest bearing, repayable at call	2,650	2,396	2,410
Other interest bearing:			
At call	10,776	10,081	10,294
Term	18,600	17,353	17,772
Total deposits at amortised cost	32,026	29,830	30,476
Total deposits	33,581	31,916	32,466

Note 8 Debt issues

	The Banking Group		
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Short-term debt			
Commercial paper	5,310	8,055	6,546
Total short-term debt	5,310	8,055	6,546
Long-term debt			
Non-domestic medium-term notes	8,235	6,413	6,711
Domestic medium-term notes	1,593	2,261	2,182
Total long-term debt	9,828	8,674	8,893
Total debt issues	15,138	16,729	15,439
Debt issues at amortised cost	9,368	8,674	8,893
Debt issues at fair value	5,770	8,055	6,546
Total debt issues	15,138	16,729	15,439
Movement in debt issues			
Balance at beginning of the period/year	15,439	12,369	12,369
Issuance during the period/year	13,859	19,498	22,961
Repayments during the period/year	(12,784)	(15,565)	(19,797)
Effect of foreign exchange movements during the period/year	(1,269)	335	(240)
Effect of fair value movements during the period/year	(107)	92	146
Balance at end of the period/year	15,138	16,729	15,439

As at 30 June 2011, the Banking Group had New Zealand Government guaranteed debt of \$3,789 million (30 June 2010: \$4,424 million; 30 September 2010: \$4,141 million). For further information on New Zealand Government guaranteed debt please refer to Guarantee arrangements on page 1.

Note 9 Related entities

Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, WNZCBL, were incorporated on 22 November 2010. The Banking Group, through its subsidiary, Westpac NZ Operations Limited ('**WNZO**'), has a qualifying interest of 9.5% in WNZCBHL. In addition, on 30 June 2011, WNZO acquired 100% of the shares issued by Aotearoa Financial Services Limited ('**AFS**') from Westpac Capital-NZ-Limited (a wholly-owned subsidiary of the Ultimate Parent Bank). AFS is a non-trading entity. As a consequence of the contractual arrangements in place, WNZCBHL, WNZCBL and AFS are consolidated into the financial statements of the Banking Group. These changes have no material impact on the Banking Group's result or financial position.

There have been no other changes to the composition of the Banking Group since 30 September 2010. Controlled entities of the Banking Group as at 30 September 2010 are set out in Note 26 to the Banking Group's financial statements included in the General Disclosure Statement for the year ended 30 September 2010.

Notes to the financial statements

Note 10 Commitments and contingent liabilities

	The Banking Group		
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m	30 September 2010 Audited \$m
Commitments for capital expenditure			
Due within one year	12	59	30
Other expenditure commitments:			
One year or less	85	87	87
Between one and five years	38	123	102
Over five years	-	-	-
Total other expenditure commitments	123	210	189
Lease commitments (all leases are classified as operating leases)			
Premises and sites	257	212	205
Motor vehicles	5	7	6
Total lease commitments	262	219	211
Lease commitments are due as follows:			
One year or less	54	47	43
Between one and five years	119	93	94
Over five years	89	79	74
Total lease commitments	262	219	211
Other contingent liabilities and commitments			
Direct credit substitutes	59	46	52
Commitments with certain drawdown	140	179	105
Transaction related contingent items	253	250	254
Short-term, self liquidating trade related contingent liabilities	618	649	758
Other commitments to provide financial services which have an original maturity of one year or more	6,406	6,080	5,925
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	4,756	4,535	4,487
Total other contingent liabilities and commitments	12,232	11,739	11,581

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

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

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

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

The Banking Group has transferred certain housing loans originated by it to the securitisation vehicles listed below. The Banking Group is obliged to repurchase housing loans:

- (a) held by the Westpac Home Loan Trust where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;
- (b) held by the Westpac NZ Securitisation Limited securitisation programme where the housing loans cease to conform to certain terms and conditions of the Westpac NZ Securitisation Limited securitisation programme;
- (c) held by WNZCBL (pursuant to the Banking Group's global covered bond programme) where:
 - (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);
 - (ii) the housing loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of such housing loan; or
 - (iii) at the cut-off date relating to the housing loan there were arrears of interest and that housing loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the housing loan.

It is not envisaged that any liability resulting in material loss to the Banking Group will arise from these obligations.

The Bank guarantees commercial paper and other debt securities issued by its wholly-owned subsidiary, WSNZL, the proceeds of which, in accordance with Reserve Bank guidelines, are immediately on-lent to the Bank. Guarantees outstanding as at 30 June 2011 were \$13,511 million (30 June 2010: \$14,380 million, 30 September 2010: \$13,114 million).

In addition, the Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 5 for further details).

Note 10 Commitments and contingent liabilities (continued)

Other contingent liabilities

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

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

Westpac (NZ) Investments Limited ('WNZIL'), a subsidiary of the Bank, leases the majority of the properties the Bank occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 30 June 2011 was estimated to be \$25 million (30 June 2010: \$22 million, 30 September 2010: \$22 million). No amount has been recognised for the \$25 million in estimated maximum vacation payments as the Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Other commitments

As at 30 June 2011, the Banking Group had commitments in respect of interest rate swap transactions, provision of credit, underwriting facilities and other arrangements entered into in the normal course of business. The Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risks. Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions to the extent that a provision has not been provided for under the Banking Group's usual practices.

Note 11 Segment information

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

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

The basis used in identifying segment categories reflects the key revenue earning sectors that the Banking Group operates in New Zealand and aligns with internal reporting to key management personnel.

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

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

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

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

Reconciling items primarily represent:

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

Notes to the financial statements

Note 11 Segment information (continued)

	The Banking Group			Total Consolidated \$m
	Business Banking \$m	Consumer Banking \$m	Reconciling Items \$m	
Nine months ended 30 June 2011 (Unaudited)				
Revenue from external customers ¹	1,386	2,560	(1,077)	2,869
Internal revenue	3	1	(4)	-
Total segment revenue	1,389	2,561	(1,081)	2,869
Profit before income tax expense	219	555	(358)	416
Income tax expense	(65)	(157)	93	(129)
Profit after income tax expense	154	398	(265)	287
Profit after income tax expense attributable to:				
Owners of the Banking Group	154	395	(265)	284
Non-controlling interests	-	3	-	3
	154	398	(265)	287
Total gross loans	21,163	30,368	(216)	51,315
Total deposits	9,744	22,283	1,554	33,581
Nine months ended 30 June 2010 (Unaudited)				
Revenue from external customers ¹	1,304	2,464	(945)	2,823
Internal revenue	3	1	(4)	-
Total segment revenue	1,307	2,465	(949)	2,823
Profit before income tax expense	224	398	(310)	312
Income tax expense	(68)	(113)	82	(99)
Profit after income tax expense	156	285	(228)	213
Profit after income tax expense attributable to:				
Owners of the Banking Group	156	283	(228)	211
Non-controlling interests	-	2	-	2
	156	285	(228)	213
Total gross loans	20,993	29,549	(157)	50,385
Total deposits	9,128	20,701	2,087	31,916
Year ended 30 September 2010 (Audited)				
Revenue from external customers ¹	1,773	3,318	(1,299)	3,792
Internal revenue	3	2	(5)	-
Total segment revenue	1,776	3,320	(1,304)	3,792
Profit before income tax expense	271	558	(411)	418
Income tax expense	(82)	(156)	106	(132)
Profit after income tax expense	189	402	(305)	286
Profit after income tax expense attributable to:				
Owners of the Banking Group	189	399	(305)	283
Non-controlling interests	-	3	-	3
	189	402	(305)	286
Total gross loans	20,995	29,811	(43)	50,763
Total deposits	9,410	21,066	1,990	32,466

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

Note 12 Securitisation, funds management and other fiduciary activities

In December 2010, the Banking Group executed a global covered bond programme which allows for the issue of mortgage-backed securities to the market for funding purposes. The programme pool was maintained during the quarter.

There have been no material changes since 31 March 2011 in the nature of the Banking Group's involvement in the following activities:

- establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities;
- origination of securitised assets, and the marketing or servicing of securitisation schemes; or
- marketing and distribution of insurance products.

Note 12 Securitisation, funds management and other fiduciary activities (continued)

Risk management

Since 31 March 2011, there has been no material change in the Banking Group's risk management framework which has been put in place to help minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the nine months ended 30 June 2011:

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

Note 13 Insurance business

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

Note 14 Capital adequacy

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

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

During the nine months ended 30 June 2011, the Banking Group complied in full with all its externally imposed capital requirements.

Summary of ICAAP

The Banking Group's Internal Capital Adequacy Assessment Process ('ICAAP') outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Guidelines on a bank's internal capital adequacy assessment process (ICAAP)' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks.

The Banking Group's ICAAP is founded on the core principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The connection between these two concepts is provided by economic capital. The economic capital requirement is calibrated to the Banking Group's target senior debt rating, which is one of the key parameters defined in the risk appetite statement. In addition to the economic capital based principles outlined above, the ICAAP also takes account of stress testing, minimum prudential capital ratios, thin capitalisation requirements and peer group comparatives.

Banking Group capital summary

	30 June 2011 Unaudited \$m
Tier One Capital	
Paid up share capital	3,470
Revenue and similar reserves ¹	555
Current period's retained profits	189
Non-controlling interests	7
Less deductions from Tier One Capital	
Goodwill	(477)
Other intangible assets	(82)
Cash flow hedge reserve	36
Deferred tax assets deduction	(141)
Expected loss excess over eligible allowance	(29)
Total Tier One Capital	3,528
Tier Two Capital	
Upper Tier Two Capital	
Perpetual subordinated notes	970
Current period's unaudited retained profits	95
B Voting shares	-
Total Upper – Tier Two Capital	1,065
Less deductions from Tier Two Capital	
Expected loss excess over eligible allowance	(29)
Lower Tier Two Capital	-
Total Tier Two Capital	1,036
Total Capital	4,564

¹ Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities reserve and prior periods' retained profits (refer to page 10).

Notes to the financial statements

Note 14 Capital adequacy (continued)

Capital structure

Ordinary shares

In accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) ordinary share capital is classified as Tier One Capital.

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

B Voting shares

There are 20,000 B Voting shares on issue as at 30 June 2011 (30 June 2010: 20,000, 30 September 2010: 20,000) with an aggregate par value of \$0.02 million (30 June 2010: \$0.02 million, 30 September 2010: \$0.02 million).

The B Voting shares are classified as Upper Tier Two Capital. The holder of each B Voting share is entitled to cast 31,250 votes (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast on a poll at a meeting of shareholders of the Bank). No dividends are payable on B Voting shares. In the event of liquidation of the Bank, a holder of a B Voting share is entitled to receive the amount of the issue price of each B Voting share held, and in priority to amounts paid to holders of ordinary shares, but is not entitled to any further amount of any surplus assets.

Perpetual subordinated notes

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

Priority of financial liabilities in the event of liquidation

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

Reserves

Available-for-sale securities reserve

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

Cash flow hedge reserve

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

Basel II

The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Clause 1 of Schedule 12 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group	
	30 June 2011 Unaudited %	30 June 2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	9.9	9.5
Total Capital ratio	12.8	12.6
Reserve Bank minimum ratios		
Tier One Capital ratio ¹	4.0	4.0
Total Capital ratio	8.0	8.0

¹ Locally incorporated registered banks having the benefit of the Wholesale Funding Guarantee Facility are required to maintain an additional 2% Tier One Capital ratio buffer. Further information about the Wholesale Guarantee is included in the Bank's General Disclosure Statement for the year ended 30 September 2010.

Note 14 Capital adequacy (continued)

Banking Group Pillar I total capital requirement

	The Banking Group					
	As at 30 June 2011 (Unaudited)			As at 30 June 2010 (Unaudited)		
	Total Exposure After Credit Risk Mitigation \$m	Risk-weighted Exposure or Implied Risk-weighted Exposure \$m	Total Capital Requirement \$m	Total Exposure After Credit Risk Mitigation \$m	Risk-weighted Exposure or Implied Risk-weighted Exposure \$m	Total Capital Requirement \$m
Total credit risk	68,115	31,521	2,521	65,914	28,636	2,290
Operational risk	N/A	3,165	253	N/A	3,264	261
Market risk	N/A	1,078	87	N/A	1,038	84
Supervisory adjustment	N/A	-	-	N/A	1,599	128
Total	68,115	35,764	2,861	65,914	34,537	2,763

Pillar II capital for other material risk

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

- Business risk – reflects the risk associated with the vulnerability of a line of business to changes in the business environment.
- Liquidity risk – is the potential inability to meet payment obligations as they come due, without incurring unacceptable losses.
- Other asset risk – reflects the strategic risk associated with the composition of the balance sheet that is not reflected in other risk categories.

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

	The Banking Group	
	30 June 2011 Unaudited \$m	30 June 2010 Unaudited \$m
Internal capital allocation		
Other material risk	361	351

Basel I

The table below represents the capital adequacy calculation based on the Basel I Capital adequacy framework.

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

	The Bank	
	30 June 2011 Unaudited %	30 June 2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	7.8	7.4
Total Capital ratio	10.1	9.8

Ultimate Parent Bank Group Basel II capital adequacy ratios

	The Bank	
	30 June 2011 Unaudited %	30 June 2010 Unaudited %
Ultimate Parent Bank Group¹		
Tier One Capital ratio	9.6	8.9
Total Capital ratio	11.0	10.8
Ultimate Parent Bank (Extended Licensed Entity)^{1, 2}		
Tier One Capital ratio	9.7	9.1
Total Capital ratio	11.4	11.4

1 The capital ratios represent information mandated by the Australian Prudential Regulation Authority ('APRA').

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

Notes to the financial statements

Note 14 Capital adequacy (continued)

Basel II came into effect on 1 January 2008. The Ultimate Parent Bank Group is accredited by APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the Advanced Measurement Approach ('**AMA**') for operational risk and the internal model approach for interest rate risk in the banking book 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 Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of these processes.

The Ultimate Parent Bank Group, and the Ultimate Parent Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 30 June 2011. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 15 Risk management

There have been no material changes to the risk management policies and no new categories of risk to which the Banking Group has become exposed since 31 March 2011.

15.1 Operational risk

The Banking Group's operational risk capital requirement

	The Banking Group 30 June 2011 (Unaudited)	
	Implied Risk-weighted Exposure \$m	Total Operational Risk Capital Requirement \$m
Methodology implemented		
Advanced measurement approach		
Operational risk	3,165	253

15.2 Credit risk

Credit risk mitigation

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

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

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

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

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

Definitions of PD, LGD, EAD and TCE

(i) **Probability of Default ('PD')**

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

(ii) **Loss Given Default ('LGD')**

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

(iii) **Exposure at Default ('EAD')**

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

(iv) **Total Committed Exposure ('TCE')**

TCE represents the sum of on-and off-balance sheet exposures.

Note 15 Risk management (continued)

Summary of the Banking Group's credit risk exposures as at 30 June 2011 (Unaudited)

	Required Regulatory Capital \$m
Exposures subject to the internal ratings based approach	2,105
Exposures not subject to the internal ratings based approach:	
Equity exposures	11
Specialised lending subject to the slotting approach	344
Exposures subject to the standardised approach	61
Total exposures not subject to the internal ratings based approach	416
Total credit risk	2,521

The Banking Group's credit risk exposures by asset class as at 30 June 2011 (Unaudited)

PD Band (%)	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,206	1,908	-	22	8	162	13
0.25 to 1.0	18,951	18,171	1	22	19	3,520	282
1.0 to 2.5	14,596	14,263	1	22	36	5,096	408
2.5 to 10.0	3,957	3,912	5	22	69	2,688	215
10.0 to 99.99	-	-	-	-	-	-	-
Default	705	702	100	22	202	1,421	114
Total	40,415	38,956	3	22	33	12,887	1,032
Other retail (credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	647	439	-	41	14	61	5
0.25 to 1.0	1,795	1,061	-	63	40	420	34
1.0 to 2.5	1,292	1,125	2	67	94	1,055	84
2.5 to 10.0	347	335	5	82	130	435	35
10.0 to 99.99	230	230	20	69	152	350	28
Default	33	31	100	66	382	117	9
Total	4,344	3,221	4	64	76	2,438	195
Small business							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	268	195	-	74	26	51	4
0.25 to 1.0	761	758	1	23	22	166	13
1.0 to 2.5	-	-	-	-	-	-	-
2.5 to 10.0	2,039	2,006	3	19	29	585	47
10.0 to 99.99	39	39	21	25	58	23	2
Default	136	136	100	23	271	367	29
Total	3,243	3,134	7	24	38	1,192	95

Notes to the financial statements

Note 15 Risk management (continued)

PD Grade	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Corporate/Business lending							
AAA	-	-	-	-	-	-	-
AA	24	24	-	54	20	5	-
A	155	155	-	60	31	47	4
BBB	1,355	1,355	-	43	40	537	43
BB	7,052	7,052	2	34	77	5,415	433
B	212	212	3	35	97	205	16
Other	1,119	1,119	22	42	225	2,512	201
Default	350	489	100	37	130	635	51
Total	10,267	10,406	8	37	90	9,356	748
Sovereign							
AAA	2,999	2,999	-	5	1	39	3
AA	-	-	-	-	-	-	-
A	651	651	-	18	10	66	5
BBB	169	169	-	20	13	22	2
BB	95	95	2	35	11	11	1
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	3,914	3,914	-	9	4	138	11
Bank							
AAA	65	65	-	10	6	4	-
AA	1,620	1,620	-	59	18	287	23
A	50	50	-	60	16	8	1
BBB	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	1,735	1,735	-	57	17	299	24

Equity

	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Equity holdings (not deducted from capital) that are publicly traded	46	46	-	-	300	137	11
All other equity holdings (not deducted from capital)	-	-	-	-	-	-	-

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

	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value \$m	EAD \$m	Value \$m	EAD \$m
Residential mortgages	5,765	4,307	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,630	1,508	-	-
Small business	978	869	-	-
Corporate/Business lending	1,855	1,855	-	-
Sovereign	421	421	-	-
Bank	-	-	-	-
Total	11,649	8,960	-	-

Note 15 Risk management (continued)

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 30 June 2011 (Unaudited)

Supervisory slotting grade	TCE \$m	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Strong	858	858	70	600	48
Good	1,699	1,699	90	1,529	122
Satisfactory	807	807	115	928	74
Weak	501	501	250	1,252	100
Default	286	360	-	-	-
Total	4,151	4,225	102	4,309	344

The following table summarises the Banking Group's Specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Undrawn commitments and other off-balance sheet amounts	217	107	232	19

The Banking Group's credit risk exposures subject to the standardised approach as at 30 June 2011 (Unaudited)

	TCE \$m	EAD \$m	Average Risk Weight %	Risk- weighted Exposure \$m	Required Regulatory Capital \$m
Property, plant and equipment and other assets	350	350	100	350	28
Related parties	585	585	43	251	20
Total on-balance sheet exposures	935	935	64	601	48

	Total Principal Amount \$m	Credit Equivalent Amount \$m	Average Risk Weight %	Risk- weighted Exposure \$m	Required Regulatory Capital \$m
Market related contracts subject to the standardised approach					
Foreign exchange contracts	13,590	427	20	85	7
Interest rate contracts	53,006	176	20	36	3
Total market related contracts subject to the standardised approach	66,596	603	20	121	10
Total credit risk exposures subject to the standardised approach				722	58
After adjustment for scalar¹				765	61

¹ As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 2.

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 June 2011 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the bank utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure as required under Clause 7 of Schedule 12 to the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the Exceeds 90% category in accordance with the requirements of the Order.

LVR range	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	12,856	5,644	7,831	5,277	3,042	34,650
Undrawn commitments and other off-balance sheet exposures	3,566	831	819	344	205	5,765
Value of exposures (\$m)	16,422	6,475	8,650	5,621	3,247	40,415

Notes to the financial statements

Note 15 Risk management (continued)

The Banking Group's reconciliation of residential mortgage-related amounts

The table below provides the Banking Group's reconciliation of amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

	The Banking Group 30 June 2011 Unaudited \$m
Term loans – Housing (as disclosed in Note 5) and Residential mortgages – total gross loans (as disclosed in Note 6)	34,751
<i>Reconciling items:</i>	
Fair value hedge adjustments	(101)
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	5,765
Residential mortgages by LVR	40,415

15.3 Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) and is calculated on a quarterly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (Value-at-Risk ('VaR')) during the quarter, comparing this to the current and previous period end VaRs and calculating the peak risk by using the ratio of the peak to the period ends. This method is approximate only as the two methods differ in the assumed repricing characteristics of the balance sheet. For each category of market risk, the Banking Group's peak end-of-day capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

The following table provides a summary of the Banking Group's capital charges by risk type as at balance date and the peak end-of-day capital charges by risk type for the three months ended 30 June 2011:

	The Banking Group 30 June 2011 (Unaudited)	
	Implied Risk-weighted Exposure \$m	Aggregate Capital Charge \$m
End-of-period		
Interest rate risk	988	79
Foreign currency risk	45	4
Equity risk	45	4
Peak end-of-day		
Interest rate risk	2,138	171
Foreign currency risk	45	4
Equity risk	45	4

15.4 Liquid assets

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

	30 June 2011 Unaudited \$m
Cash	624
Supranational securities	50
NZ Government securities	2,260
NZ corporate securities	1,649
Residential mortgage-backed securities	3,992
Total liquid assets	8,575

Note 16 Concentration of credit exposures

Analysis of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

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

- as at 30 June 2011 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2011 was nil.

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

- as at 30 June 2011 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2011 was nil.

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

Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude exposures to connected persons, to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of individually assessed provisions.

