



# Westpac New Zealand Limited General Short Form Disclosure Statement

For the nine months ended 30 June 2010

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## General information and definitions

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

In this General Short Form Disclosure Statement reference is made to:

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

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

## General matters

### Registered Bank

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (Company Number 1763882) on 14 February 2006. The head office of the Bank is situated at, and the address for service of the Bank is, Level 15, 188 Quay Street, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited, a New Zealand company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited, an Australian company. Westpac Overseas Holdings No. 2 Pty Limited is, in turn, a wholly-owned subsidiary of Westpac Banking Corporation (**'Ultimate Parent Bank'**). The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its address for service is Level 20, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Westpac New Zealand Group Limited has a direct qualifying interest in 85% of the voting securities in the Bank. Westpac Overseas Holdings No. 2 Pty Limited has a direct qualifying interest in 15% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the securities of the Bank.

Westpac New Zealand Group Limited has the ability to directly appoint up to 100% of the Board of Directors of the Bank (the **'Board'**) and, as indirect holding companies of the Bank, each of the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited has the ability to indirectly appoint up to 100% of the Board.

In addition, the Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

All appointments to the Board must be approved by the Reserve Bank of New Zealand (**'Reserve Bank'**) (please refer to the Bank's conditions of registration on page 6 of this General Short Form Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated as a branch in New Zealand. Effective 1 November 2006, the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank (**'NZ Branch'**) (carrying on institutional banking and financial markets operations) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). Further information on the NZ Branch is available in Westpac Banking Corporation's General Short Form Disclosure Statement for the nine months ended 30 June 2010.

### Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an authorised deposit-taking institution (**'ADI'**) under the Banking Act 1959 of Australia (**'Australian Banking Act'**) and, as such, is subject to prudential regulation and supervision by the Australian Prudential Regulation Authority (**'APRA'**). APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APRA's Prudential Standard APS 222 Associations with Related Entities (**'APS 222'**). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being a related ADI as defined in APS 222) must not exceed 50% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank (such as a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the Board of Directors of the Ultimate Parent Bank must have regard to:
  - the level of exposures that would be approved to third parties of broadly equivalent credit status; and
  - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions, and its ability to continue operating, in the event of a failure by the Bank or any other related entity to which it is exposed.

The Ultimate Parent Bank complies with the requirements set by APRA in respect of the extent of financial support that is provided to the Bank.

Prior to 27 July 2010, section 13A(3) of the Australian Banking Act provided that, in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy, in priority to all other liabilities of the Ultimate Parent Bank:

- first, certain obligations of the Ultimate Parent Bank to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of 'protected accounts' (as defined in the Australian Banking Act) as part of the financial claims scheme (**'FCS'**) for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A\$1 million in the winding-up of the Ultimate Parent Bank;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the Ultimate Parent Bank in connection with the FCS; and
- third, the Ultimate Parent Bank's deposit liabilities in Australia (other than any liabilities under the first priority listed above).

With effect from 27 July 2010, section 13A of the Australian Banking Act was amended so that in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy the liabilities of the Ultimate Parent Bank in the following order:

- first and second, as above;

## General matters (continued)

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

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

## Directors

The Directors of the Bank at the time this General Short Form Disclosure Statement was signed were:

**Peter David Wilson**, CA

**Elizabeth Blomfield Bryan**, BA (Econ.), MA (Econ.)

**Philip Matthew Coffey**, BEc (Hons.)

**George Frazis**, BEng. (Hons.), MBA (AGSM, Wharton)

**Harold Maffey Price**

**Ralph Graham Waters**, C.P.Eng., F.I.E (AUST.), M.Bus.

There have been no changes to the composition of the Board since the date of signing of the Bank's General Disclosure Statement for the six months ended 31 March 2010.

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

## 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.

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

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

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

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

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

### Descriptions of credit rating scales<sup>1</sup>

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

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

## Credit ratings (continued)

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

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

## Guarantee arrangements

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

### Government guarantees

The Bank has entered into the following guarantees with the New Zealand Government ('**Crown**');

- (i) 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**');
- (ii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**'); and
- (iii) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together the '**Wholesale Guarantee**').

The following descriptions of the Deposit Guarantee, Revised Deposit Guarantee and Wholesale Guarantee ('**Government Guarantees**') are for general information purposes only, and do not purport to be exhaustive. For full information on the terms of the Government Guarantees refer to the Government Guarantees, copies of which are included in the Bank's Supplemental Disclosure Statement (refer to page 8).

The guarantor of the Bank's obligations under the Government Guarantees is the Crown. The Crown's address for service in relation to the Deposit Guarantee and Revised Deposit Guarantee is 1 The Terrace, Wellington, New Zealand.

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 Government Guarantees is available from the Treasury internet site [www.treasury.govt.nz](http://www.treasury.govt.nz). The most recent audited financial statements of the Crown may also be obtained from the Treasury internet site.

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

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

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

For an explanation of the credit rating scales see the table under the sub-heading "Descriptions of credit rating scales" on page 2 of this General Short Form Disclosure Statement.

### Deposit Guarantee

#### **Obligations guaranteed**

The obligations guaranteed by the Crown under the Deposit Guarantee are obligations of the Bank, incurred before 1 January 2010, to pay money (whether present or future) to a Creditor (as defined in the Deposit Guarantee) under certain debt securities ('**Indebtedness**').

The Crown:

- (i) guarantees to each Creditor payment by the Bank of:
  - (a) all Indebtedness that becomes payable between 12 October 2008 and 11 October 2010 (inclusive) ('**Guarantee Period**'); and
  - (b) if certain default events described in the Deposit Guarantee occur during the Guarantee Period, all Indebtedness and interest that exists on the date of that default event; and
- (ii) undertakes to each Creditor that, if the Bank does not pay to any Creditor any Indebtedness or interest guaranteed when payable, then the Crown will pay the amount of that Indebtedness or interest to the Creditor.

Subordinated debt is not covered by the Deposit Guarantee.

#### **Limits on the amount of obligations guaranteed**

The maximum liability of the Crown to each Creditor under the Deposit Guarantee is \$1 million, or such other amount as may be specified in respect of a 'Nominated Beneficiary' pursuant to the Deposit Guarantee. The \$1 million cap is on individual Creditors (e.g. a natural person or company) not on individual bank accounts.

## Guarantee arrangements (continued)

### **Material conditions applicable to the guarantee**

The following is a summary of the material conditions applicable to the Deposit Guarantee other than non-performance by the Bank.

The Crown will not be liable to any Creditor under the Deposit Guarantee if, as at 11 November 2008, a '**Default Event**' (as that term is defined in the Deposit Guarantee) with respect to the Bank has occurred and is continuing unremedied. Also, any Indebtedness that arises following a Default Event, other than interest accruing on Indebtedness existing at the Default Event, is not covered by the Deposit Guarantee.

The Crown will not be obliged to pay a Creditor under the Deposit Guarantee unless and until the Crown:

- (i) receives a notice of claim from the Creditor in respect of relevant Indebtedness; and
- (ii) has satisfied itself as to the amount of the Indebtedness and the extent of its liability under the Deposit Guarantee.

Where the Bank's Indebtedness is or becomes the subject of any guarantee, the Bank must:

- (i) use all reasonable endeavours to ensure that Creditors claim under that other guarantee before claiming against the Crown under the Deposit Guarantee; and
- (ii) (if applicable) ensure that the Crown has the benefit of that other guarantee in respect of any amounts paid to Creditors under the Deposit Guarantee.

### **Expiry and withdrawal of the guarantee**

The Deposit Guarantee, in its current form, is due to expire at the end of 11 October 2010. The Deposit Guarantee may be withdrawn by the Crown in certain circumstances as set out in the Deposit Guarantee. The Bank does not have an option to roll over or renew the Deposit Guarantee.

### **Extension of the Deposit Guarantee**

On 25 August 2009, the Crown announced an extension of the Deposit Guarantee until 31 December 2011. The extension is effectively a new guarantee scheme. The new scheme will commence on 12 October 2010 (when the existing Deposit Guarantee ends) and end on 31 December 2011. The Bank must reapply if it wishes to have a guarantee under the new scheme. As at the date of this General Short Form Disclosure Statement, no such application has been made by the Bank. Further details of the new scheme are available from the Treasury internet site [www.treasury.govt.nz](http://www.treasury.govt.nz).

## Revised Deposit Guarantee

### **Obligations guaranteed**

The obligations guaranteed by the Crown under the Revised Deposit Guarantee are obligations of the Bank to pay money (whether present or future) to a Creditor (as defined in the Revised Deposit Guarantee) under certain debt securities ('**Revised Guarantee Indebtedness**').

- (i) Under the Revised Deposit Guarantee the Crown guarantees to each Creditor payment by the Bank of:
  - (a) all Revised Guarantee Indebtedness that becomes payable during the Guarantee Period; and
  - (b) if certain default events described in the Revised Deposit Guarantee occur during the Guarantee Period, all Revised Guarantee Indebtedness arising under debt securities that exist on the date of that default event; and
- (ii) undertakes to each Creditor that if the Bank does not pay to any Creditor any Revised Guarantee Indebtedness when payable, the Crown will pay the amount of that Revised Guarantee Indebtedness to the Creditor.

The Revised Deposit Guarantee does not cover subordinated debt, debt covered by the Deposit Guarantee or the Wholesale Guarantee, and certain other debt specified in the Revised Deposit Guarantee.

### **Limits on the amount of obligations guaranteed**

The maximum aggregate liability of the Crown to each Creditor under the Revised Deposit Guarantee, and any guarantee that replaces the Revised Deposit Guarantee is \$1 million, or such other amount as may be specified in respect of a 'Nominated Beneficiary' pursuant to the Revised Deposit Guarantee. The \$1 million cap is on individual Creditors (e.g. a natural person or company) not on individual bank accounts.

### **Material conditions applicable to the guarantee**

The following is a summary of the material conditions applicable to the Revised Deposit Guarantee other than non-performance by the Bank.

The Crown will not be liable to any Creditor under the Revised Deposit Guarantee if, as at 16 December 2009, a '**Default Event**' (as that term is defined in the Revised Deposit Guarantee) with respect to the Bank has occurred and is continuing unremedied. Also, any Revised Guarantee Indebtedness that arises or is acquired by the Creditor following a Default Event or notice of withdrawal of the Revised Deposit Guarantee is not covered by the Revised Deposit Guarantee.

The Crown will not be obliged to pay a Creditor under the Revised Deposit Guarantee unless and until the Crown:

- (i) receives a notice of claim from the Creditor in respect of relevant Revised Guarantee Indebtedness; and
- (ii) has satisfied itself as to the amount of the Revised Guarantee Indebtedness and the extent of its liability under the Revised Deposit Guarantee.

Where the Bank's Revised Guarantee Indebtedness is or becomes the subject of any guarantee, the Bank must:

- (i) use all reasonable endeavours to ensure that Creditors claim under that other guarantee before claiming against the Crown under the Revised Deposit Guarantee; and
- (ii) (if applicable) ensure that the Crown has the benefit of the other guarantee in respect of any amounts paid to Creditors under the Revised Deposit Guarantee.

The Crown may also limit its liability under the Revised Deposit Guarantee in respect of any debt securities in the event the Bank varies such debt securities in accordance with, or in contemplation of, any compromise or agreement with its creditors.

### **Expiry and withdrawal of the guarantee**

The Revised Deposit Guarantee, in its current form, is due to expire at the end of 11 October 2010. The Revised Deposit Guarantee may be withdrawn by the Crown in certain circumstances, as set out in the Revised Deposit Guarantee. The Bank does not have an option to roll over or renew the Revised Deposit Guarantee.

## Guarantee arrangements (continued)

### **Wholesale Guarantee**

#### ***Obligations guaranteed***

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

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

The Crown:

- (i) guarantees to each Beneficiary the payment by the Bank of any Guaranteed Liability owed to that Beneficiary; and
- (ii) undertakes to each Beneficiary that, if the Bank does not pay any Guaranteed Liability owed to that Beneficiary on its due date, the Crown will pay that Guaranteed Liability.

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

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

#### ***Limits on the amount of obligations guaranteed***

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

#### ***Material conditions applicable to the guarantee***

The material conditions applicable to the Wholesale Guarantee, other than non-performance by the Bank, are summarised below:

- (i) The Crown is not liable in respect of any Guaranteed Liability that has been amended in any respect without the prior written consent of the Crown.
- (ii) The Crown is not liable in respect of any Guaranteed Liability until the Crown receives a written demand for that payment that complies with the requirements set out in the Wholesale Guarantee.
- (iii) Special conditions may be specified in the Guarantee Eligibility Certificate in respect of a particular Guaranteed Liability.

The Crown has also imposed a requirement that locally incorporated registered banks having the benefit of the Wholesale Guarantee maintain an additional 2% Tier One Capital ratio buffer, above the regulatory minimum 4% Tier One Capital ratio. The Crown has indicated that, if this additional buffer is not maintained by a bank, no further Guarantee Eligibility Certificates will be issued in relation to that bank's liabilities. The Bank complies with this requirement.

#### ***Expiry and withdrawal of the guarantee***

The Wholesale Guarantee closed on 30 April 2010. From that time, no new Guarantee Eligibility Certificates will be issued. Existing Guaranteed Liabilities will not be 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.

## Conditions of registration

The conditions of registration imposed on the Bank, which applied from 30 March 2010, are as follows:

1. That the Banking Group complies with the following requirements:
  - (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 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 March 2008 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 March 2008 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 March 2008 is 1.06.

For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008 is the sum of:

- (a) 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and
- (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where
  - (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from Tier One Capital, plus deductions from Total Capital, all calculated in accordance with the Reserve Bank document 'Capital adequacy framework (Basel I approach)' (BS2) dated March 2008;
  - (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures plus deductions from Tier One Capital, plus deductions from Total Capital, less any amount included in Tier Two Capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008; and
  - (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off-balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted exposures secured by residential mortgages as defined in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated March 2008.

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 March 2008; 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 March 2008.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice as defined in the Financial Reporting Act 1993.

3. That the Banking Group's insurance business is not greater than 1 percent of its total consolidated assets. For the purposes of this condition:

- (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
- (ii) In measuring the size of a Banking Group's insurance business:
  - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
    - the total consolidated assets of the group headed by that entity; or
    - if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
  - (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
  - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
  - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.



## Conditions of registration (continued)

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 <sup>1</sup>	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

<sup>1</sup> 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 March 2008.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the Board of the Bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank, or any other entity capable of controlling or significantly influencing the Bank.
7. That the chairperson of the Bank's Board is not an employee of the Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made unless:
- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - the Reserve Bank has advised that it has no objection to that appointment.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
- that the Bank's clearing and settlement obligations due on a day can be met on that day;
  - that the Bank's financial risk positions on a day can be identified on that day;
  - that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
  - 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 31 March 2010, functions provided to the Bank by Paymark Limited (previously Electronic Transaction Services Limited) and Interchange and Settlement Limited are not covered by this condition.
12. (a) That the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank.
- (b) That the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank.
- (c) That by 31 December 2007 all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.
14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
- the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
  - the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
  - the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.
- For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2010 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.
15. That, with effect from 1 April 2010, the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
- is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
  - identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

## Conditions of registration (continued)

- (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term “Banking Group” means Westpac New Zealand Limited’s financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993. The Bank’s conditions of registration were changed on 23 March 2010, with effect from 30 March 2010, with respect to the revised Reserve Bank documents entitled ‘Liquidity Policy’ (BS13) and ‘Liquidity Policy Annex: Liquid Assets’ (BS13A), which were previously dated 20 October 2009 and October 2009 respectively, and which were both revised in March 2010.

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

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

## Proposed transfer of additional banking operations to Westpac New Zealand Limited

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

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

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

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

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

As of 30 June 2010, business activities proposed to be transferred to the Bank include: customer loans of approximately \$6.8 billion, customer deposits of approximately \$4.7 billion, and term intra-group funding of approximately \$3.0 billion. In addition, for the nine months ended 30 June 2010, it is estimated that the business activities to be transferred to the Bank had aggregate revenues of approximately \$130 million and aggregate net profit after tax of approximately \$90 million.

Following the transfer of these operations, the Bank is likely to have additional funding requirements, all or substantially all of which it expects to meet initially through intra-group borrowing, subject to applicable regulatory limitations.

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

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

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

## Supplemental disclosure statement

A copy of the Bank’s most recent Supplemental Disclosure Statement will be provided immediately, free of charge, to any person requesting a copy where the request is made at the Bank’s head office, Level 15, 188 Quay Street, Auckland. It is also available, free of charge, at the internet address [www.westpac.co.nz](http://www.westpac.co.nz) or within five working days of any request, at any branch of the Bank and at any staffed premises of an agency of the Bank, primarily engaged in the business of the Bank, or other staffed premises of the Bank, to which its customers have access in order to conduct banking business.

The Bank’s most recent Supplemental Disclosure Statement contains a copy of the bilateral netting agreement (refer to note 17), copies of the Crown Deeds of Guarantee and Supplemental Deed to the Crown Deed of Guarantee between the Bank and the Crown (refer to page 3) and a copy of the Crown Wholesale Funding Guarantee granted by the Crown in respect of the Bank (refer to page 3).

## Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this General Short Form Disclosure Statement is signed, the General Short Form 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 2010 and except for the matters related to outsourcing referred to after the conditions of registration on page 8 and the application of systems for monitoring and controlling adequately the concentration of credit exposures to non-connected individual bank counterparties referred to in Note 16:

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

This Directors' Statement has been signed by all the Directors:



Peter David Wilson



Elizabeth Blomfield Bryan



Philip Matthew Coffey



George Frazis



Harold Maffey Price



Ralph Graham Waters

Dated this 11<sup>th</sup> day of August 2010

# Consolidated financial statements

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## Consolidated income statement for the nine months ended 30 June 2010

	<b>The Banking Group</b>		
	<b>Nine Months Ended 30 June 2010 Unaudited \$m</b>	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
	Note		
Interest income	<b>2,611</b>	3,084	3,988
Interest expense	<b>(1,759)</b>	(2,063)	(2,672)
<b>Net interest income</b>	<b>852</b>	1,021	1,316
Non-interest income:			
Fees and commissions	<b>215</b>	255	346
Gain/(loss) on ineffective hedges	<b>3</b>	(3)	1
Other non-interest income	<b>(6)</b>	21	16
<b>Total non-interest income</b>	<b>212</b>	273	363
<b>Net operating income</b>	<b>1,064</b>	1,294	1,679
Operating expenses	<b>(518)</b>	(513)	(708)
Impairment charges on loans	<b>(234)</b>	(515)	(620)
<b>Operating profit</b>	<b>312</b>	266	351
Share of profit of associate accounted for using the equity method	-	-	-
<b>Profit before income tax expense</b>	<b>312</b>	266	351
Income tax expense	<b>(99)</b>	(78)	(103)
<b>Profit after income tax expense</b>	<b>213</b>	188	248
<b>Profit after income tax expense attributable to:</b>			
Owners of the Banking Group	<b>211</b>	186	245
Non-controlling interests	<b>2</b>	2	3
<b>Profit after income tax expense</b>	<b>213</b>	188	248

The accompanying notes (numbered 1 to 17) 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 2010

	The Banking Group		
	Nine Months Ended 30 June 2010 Unaudited \$m	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
<b>Profit after income tax expense</b>	<b>213</b>	188	248
<b>Other comprehensive income:</b>			
Net unrealised gains from changes in fair value of available-for-sale securities	7	1	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	10	(23)	(15)
Transferred to the income statement	4	(2)	(3)
Actuarial gains on employee defined benefit superannuation schemes	7	-	30
Income tax relating to components of other comprehensive income <sup>1</sup>	(7)	7	(5)
<b>Other comprehensive income/(expense), net of tax</b>	<b>21</b>	(17)	9
<b>Total comprehensive income</b>	<b>234</b>	171	257
<b>Total comprehensive income attributable to:</b>			
Owners of the Banking Group	232	169	254
Non-controlling interests	2	2	3
<b>Total comprehensive income</b>	<b>234</b>	171	257

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

### Tax effects relating to each component of other comprehensive income

	The Banking Group		
	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	Net of Tax Amount \$m
<b>For the nine months ended 30 June 2010 (unaudited)</b>			
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
<b>Other comprehensive income</b>	<b>28</b>	(7)	21
<b>For the nine months ended 30 June 2009 (unaudited)</b>			
Net unrealised gains from changes in fair value of available-for-sale securities	1	-	1
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(23)	7	(16)
Transferred to the income statement	(2)	-	(2)
<b>Other comprehensive expense</b>	<b>(24)</b>	7	(17)
<b>For the year ended 30 September 2009 (audited)</b>			
Net unrealised gains from changes in fair value of available-for-sale securities	2	-	2
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(15)	5	(10)
Transferred to the income statement	(3)	1	(2)
Actuarial gains on employee defined benefit superannuation schemes	30	(11)	19
<b>Other comprehensive income</b>	<b>14</b>	(5)	9

The accompanying notes (numbered 1 to 17) 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 2010

### 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
<b>As at 1 October 2008</b>	4,550	344	16	(3)	4,907	8	4,915
<b>Nine months ended 30 June 2009</b>							
Profit after income tax expense	-	186	-	-	186	2	188
Other comprehensive income/(expense)	-	-	1	(18)	(17)	-	(17)
<b>Total comprehensive income/(expense) for the nine months ended 30 June 2009</b>	-	186	1	(18)	169	2	171
Transaction with owners:							
Ordinary share capital issued	220	-	-	-	220	-	220
Preference share capital redeemed	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on ordinary shares	-	(220)	-	-	(220)	(3)	(223)
Dividends paid on preference shares	-	(104)	-	-	(104)	-	(104)
<b>As at 30 June 2009 (unaudited)</b>	3,470	206	17	(21)	3,672	7	3,679
<b>Year ended 30 September 2009</b>							
Profit after income tax expense	-	245	-	-	245	3	248
Other comprehensive income/(expense)	-	19	2	(12)	9	-	9
<b>Total comprehensive income/(expense) for the year ended 30 September 2009</b>	-	264	2	(12)	254	3	257
Transaction with owners:							
Ordinary share capital issued	220	-	-	-	220	-	220
Preference share capital redeemed	(1,300)	-	-	-	(1,300)	-	(1,300)
Dividends paid on ordinary shares	-	(220)	-	-	(220)	(4)	(224)
Dividends paid on preference shares	-	(104)	-	-	(104)	-	(104)
<b>As at 30 September 2009 (audited)</b>	3,470	284	18	(15)	3,757	7	3,764
<b>Nine months ended 30 June 2010</b>							
Profit after income tax expense	-	211	-	-	211	2	213
Other comprehensive income	-	5	7	9	21	-	21
<b>Total comprehensive income for the nine months ended 30 June 2010</b>	-	216	7	9	232	2	234
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(3)	(3)
<b>As at 30 June 2010 (unaudited)</b>	3,470	500	25	(6)	3,989	6	3,995

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

## Consolidated balance sheet as at 30 June 2010

		<b>The Banking Group</b>		
		<b>30 June 2010 Unaudited \$m</b>	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
	Note			
<b>Assets</b>				
Cash and balances with central banks		173	359	213
Due from other financial institutions		2	4	3
Derivative financial instruments		15	29	22
Trading securities and other financial assets designated at fair value	3	3,454	4,982	4,421
Available-for-sale securities		44	36	37
Loans	4,5	49,712	47,623	48,174
Due from related entities		654	393	576
Current tax assets		33	-	10
Investment in associate		48	48	48
Goodwill and other intangible assets		570	572	575
Property, plant and equipment		117	91	92
Deferred tax assets		234	270	196
Other assets		144	177	142
<b>Total assets</b>		<b>55,200</b>	54,584	54,509
<b>Liabilities</b>				
Deposits at fair value	6	1,975	4,427	3,468
Deposits at amortised cost	6	29,941	28,788	29,027
Trading liabilities and other financial liabilities designated at fair value	7	-	2,123	1,885
Debt issues	8	16,729	10,376	12,369
Current tax liabilities		-	19	-
Provisions		76	74	76
Other liabilities		466	621	524
<b>Total liabilities excluding perpetual subordinated notes and due to related entities</b>		<b>49,187</b>	46,428	47,349
Perpetual subordinated notes		970	970	970
<b>Total liabilities excluding due to related entities</b>		<b>50,157</b>	47,398	48,319
Due to related entities		1,048	3,507	2,426
<b>Total liabilities</b>		<b>51,205</b>	50,905	50,745
<b>Net assets</b>		<b>3,995</b>	3,679	3,764
<b>Equity</b>				
Share capital		3,470	3,470	3,470
Retained profits		500	206	284
Available-for-sale securities reserve		25	17	18
Cash flow hedge reserve		(6)	(21)	(15)
<b>Total equity attributable to owners of the Banking Group</b>		<b>3,989</b>	3,672	3,757
Non-controlling interests		6	7	7
<b>Total equity</b>		<b>3,995</b>	3,679	3,764
Interest earning and discount bearing assets		54,506	53,898	53,673
Interest and discount bearing liabilities		47,569	46,387	46,224

The accompanying notes (numbered 1 to 17) 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 2010

	<b>The Banking Group</b>		
	<b>Nine Months Ended 30 June 2010 Unaudited \$m</b>	Nine Months Ended 30 June 2009 Unaudited \$m	Year Ended 30 September 2009 Audited \$m
<b>Cash flows from operating activities</b>			
Interest income received	2,611	3,125	4,031
Interest expense paid	(1,767)	(2,308)	(2,847)
Non-interest income received	222	243	356
Net decrease/(increase) in trading securities and other financial assets designated at fair value	967	(3,009)	(2,448)
Net (decrease)/increase in trading liabilities and other financial liabilities designated at fair value	(1,885)	2,255	1,885
Operating expenses paid	(454)	(462)	(647)
Income tax paid	(125)	(169)	(190)
<b>Net cash (used in)/provided by operating activities</b>	<b>(431)</b>	<b>(325)</b>	<b>140</b>
<b>Cash flows from investing activities</b>			
Net loans advanced to customers	(1,772)	(1,343)	(1,999)
Net (increase)/decrease in due from related entities	(64)	1,930	1,696
Net increase in other assets	(10)	(6)	-
Purchase of capitalised computer software	(26)	(27)	(44)
Purchase of property, plant and equipment	(44)	(29)	(38)
Proceeds from disposal of property, plant and equipment	1	-	5
<b>Net cash (used in)/provided by investing activities</b>	<b>(1,915)</b>	<b>525</b>	<b>(380)</b>
<b>Cash flows from financing activities</b>			
Redemption of preference share capital	-	(1,300)	(1,300)
Net (decrease)/increase in deposits	(579)	989	268
Net proceeds from/(repayments of) debt issues	4,360	(726)	1,267
Net (decrease)/increase in due to related entities	(1,422)	1,184	174
Net (decrease)/increase in other liabilities	(51)	11	42
Payment of dividends	(3)	(108)	(108)
<b>Net cash provided by financing activities</b>	<b>2,305</b>	<b>50</b>	<b>343</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(41)</b>	<b>250</b>	<b>103</b>
Cash and cash equivalents at beginning of the period/year	216	113	113
<b>Cash and cash equivalents at end of the period/year</b>	<b>175</b>	<b>363</b>	<b>216</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with central banks	173	359	213
Due from other financial institutions – at call	2	4	3
<b>Cash and cash equivalents at end of the period/year</b>	<b>175</b>	<b>363</b>	<b>216</b>
<b>Reconciliation of profit after income tax expense to net cash (used in)/provided by operating activities</b>			
Profit after income tax expense	213	188	248
<i>Adjustments:</i>			
Software amortisation costs	31	34	45
Impairment charges on intangible assets	-	-	3
Impairment charges on loans	234	515	620
Depreciation on property, plant and equipment	18	14	20
Gain on disposal of property, plant and equipment	-	-	(3)
Share-based payments	2	3	3
Movement in accrued assets	8	12	41
Movement in accrued liabilities and provisions	-	(140)	(186)
Movement in current and deferred tax	(26)	(180)	(78)
Movement in trading securities and other financial assets designated at fair value	967	(3,009)	(2,448)
Movement in trading liabilities and other financial liabilities designated at fair value	(1,885)	2,255	1,885
Movement in derivative financial instruments	7	(17)	(10)
<b>Net cash (used in)/provided by operating activities</b>	<b>(431)</b>	<b>(325)</b>	<b>140</b>

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

# Notes to the consolidated financial statements

## Note 1 Statement of accounting policies

### Statutory base

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

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**') as appropriate for profit-oriented entities, and New Zealand equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the General Disclosure Statements for the year ended 30 September 2009 and for the six months ended 31 March 2010.

These financial statements also 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 2009, the following standards, interpretations and amendments have been adopted with effect from 1 October 2009 in the preparation of these financial statements:

- New Zealand equivalent to International Financial Reporting Standards ('**NZ IFRS**') 3 *Business Combinations* and amended NZ IAS 27 *Consolidated and Separate Financial Statements* – The main changes under these standards which apply prospectively to business combinations are that:
  - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
  - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however, remeasurement in the future will be recognised in the income statement;
  - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
  - while control is retained, transactions with non-controlling interests are treated as equity transactions.
- NZ IAS 1 *Presentation of Financial Statements* (revised) – The amendments affect the presentation of owner changes in equity and of comprehensive income, but do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
- NZ IFRS 8 *Operating Segments* – Further aligns external operating segment reporting with internal reporting to key management personnel.

Adoption of these new and revised accounting standards has not resulted in any 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**').

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

### Basis of preparation

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

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the General Disclosure Statements for the year ended 30 September 2009, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the "Statutory base" section above, and for the six months ended 31 March 2010.

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.

# Notes to the consolidated financial statements

## Note 2 Impairment charges on loans

	<b>The Banking Group</b>			
	<b>Nine Months Ended 30 June 2010 – Unaudited</b>			
	<b>Residential Mortgages \$m</b>	<b>Other Loans for Consumer Purposes \$m</b>	<b>Loans for Business Purposes \$m</b>	<b>Total \$m</b>
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)
<b>Total impairment charges on loans</b>	<b>102</b>	<b>70</b>	<b>62</b>	<b>234</b>

	<b>The Banking Group</b>			
	<b>Nine Months Ended 30 June 2009 – Unaudited</b>			
	<b>Residential Mortgages \$m</b>	<b>Other Loans for Consumer Purposes \$m</b>	<b>Loans for Business Purposes \$m</b>	<b>Total \$m</b>
Collectively assessed provisions	10	3	113	126
Individually assessed provisions	60	-	298	358
Bad debt write-off direct to the income statement	2	47	5	54
Interest adjustments	(2)	(8)	(13)	(23)
<b>Total impairment charges on loans</b>	<b>70</b>	<b>42</b>	<b>403</b>	<b>515</b>

	<b>The Banking Group</b>			
	<b>Year Ended 30 September 2009 – Audited</b>			
	<b>Residential Mortgages \$m</b>	<b>Other Loans for Consumer Purposes \$m</b>	<b>Loans for Business Purposes \$m</b>	<b>Total \$m</b>
Collectively assessed provisions	12	(1)	137	148
Individually assessed provisions	86	-	327	413
Bad debt write-off direct to the income statement	7	73	8	88
Interest adjustments	(3)	(10)	(16)	(29)
<b>Total impairment charges on loans</b>	<b>102</b>	<b>62</b>	<b>456</b>	<b>620</b>

# Notes to the consolidated financial statements

## Note 3 Trading securities and other financial assets designated at fair value

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
<b>Trading securities</b>			
Listed:			
NZ Government securities	2,260	2,445	2,369
<b>Total listed trading securities</b>	<b>2,260</b>	<b>2,445</b>	<b>2,369</b>
Unlisted:			
NZ corporate securities:			
Certificates of deposit	1,194	2,537	2,052
<b>Total unlisted trading securities</b>	<b>1,194</b>	<b>2,537</b>	<b>2,052</b>
<b>Total trading securities and other financial assets designated at fair value</b>	<b>3,454</b>	<b>4,982</b>	<b>4,421</b>

As at 30 June 2010 no trading securities in the Banking Group (30 June 2009: \$250 million, 30 September 2009: nil) were encumbered through repurchase agreements.

## Note 4 Loans

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
Overdrafts	957	1,080	1,056
Credit card outstandings	1,248	1,168	1,182
Money market loans	628	579	574
Term loans:			
Housing	33,981	32,294	32,587
Non-housing	13,320	12,937	12,985
Other	251	291	310
<b>Total gross loans</b>	<b>50,385</b>	<b>48,349</b>	<b>48,694</b>
Provisions for impairment charges on loans	(673)	(726)	(520)
<b>Total net loans</b>	<b>49,712</b>	<b>47,623</b>	<b>48,174</b>

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

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 5.

# Notes to the consolidated financial statements

## Note 5 Credit quality, impaired assets and provisions for impairment charges

	The Banking Group			
	Nine Months Ended 30 June 2010 – Unaudited			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
<b>Total neither past due nor impaired</b>	<b>32,451</b>	<b>1,557</b>	<b>13,575</b>	<b>47,583</b>
<b>Past due assets 1 to 89 days<sup>1</sup></b>				
Balance at beginning of the period	850	131	422	1,403
Additions	4,384	632	2,296	7,312
Deletions	(4,166)	(631)	(2,283)	(7,080)
<b>Balance at end of the period</b>	<b>1,068</b>	<b>132</b>	<b>435</b>	<b>1,635</b>
<b>Past due assets 90+ days<sup>1, 2</sup></b>				
Balance at beginning of the period	88	26	232	346
Additions	210	58	379	647
Deletions	(216)	(61)	(309)	(586)
<b>Balance at end of the period</b>	<b>82</b>	<b>23</b>	<b>302</b>	<b>407</b>
<b>Total past due assets<sup>1</sup></b>	<b>1,150</b>	<b>155</b>	<b>737</b>	<b>2,042</b>
<b>Individually impaired assets<sup>2</sup></b>				
Balance at beginning of the period	351	-	319	670
Additions	313	-	315	628
Amounts written off	(58)	-	(26)	(84)
Returned to performing or repaid	(226)	-	(228)	(454)
<b>Balance at end of the period</b>	<b>380</b>	<b>-</b>	<b>380</b>	<b>760</b>
<b>Restructured assets<sup>2</sup></b>				
Balance at beginning of the period	-	-	1	1
Additions	-	-	-	-
Deletions	-	-	(1)	(1)
<b>Balance at end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired assets</b>	<b>380</b>	<b>-</b>	<b>380</b>	<b>760</b>
<b>Total gross loans<sup>3, 4</sup></b>	<b>33,981</b>	<b>1,712</b>	<b>14,692</b>	<b>50,385</b>
<b>Individually assessed provisions</b>				
Balance at beginning of the period	66	-	84	150
Impairment charges on loans:				
New provisions	78	-	102	180
Recoveries	(17)	-	(20)	(37)
Amounts written off	(51)	-	(10)	(61)
<b>Balance at end of the period</b>	<b>76</b>	<b>-</b>	<b>156</b>	<b>232</b>
<b>Collectively assessed provisions</b>				
Balance at beginning of the period	42	60	303	405
Impairment charges on loans	37	44	(14)	67
<b>Balance at end of the period</b>	<b>79</b>	<b>104</b>	<b>289</b>	<b>472</b>
<b>Total provision for impairment charges and credit commitments</b>	<b>155</b>	<b>104</b>	<b>445</b>	<b>704</b>
Less: Provision for credit commitments	-	-	(31)	(31)
<b>Total impairment provisions</b>	<b>155</b>	<b>104</b>	<b>414</b>	<b>673</b>
<b>Total net loans</b>	<b>33,826</b>	<b>1,608</b>	<b>14,278</b>	<b>49,712</b>

1 Past due assets are not impaired assets.

2 The Banking Group and the Bank do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.

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

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

# Notes to the consolidated financial statements

## Note 5 Credit quality, impaired assets and provisions for impairment charges (continued)

<b>The Banking Group</b>				
Nine Months Ended 30 June 2009 – Unaudited				
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
<b>Total neither past due nor impaired</b>	30,710	1,450	13,142	45,302
<b>Past due assets 1 to 89 days<sup>1</sup></b>				
Balance at beginning of the period	1,394	156	589	2,139
Additions	5,460	670	3,016	9,146
Deletions	(5,741)	(685)	(3,007)	(9,433)
<b>Balance at end of the period</b>	1,113	141	598	1,852
<b>Past due assets 90+ days<sup>1,2</sup></b>				
Balance at beginning of the period	75	25	121	221
Additions	296	73	387	756
Deletions	(245)	(67)	(302)	(614)
<b>Balance at end of the period</b>	126	31	206	363
<b>Total past due assets<sup>1</sup></b>	1,239	172	804	2,215
<b>Individually impaired assets<sup>2</sup></b>				
Balance at beginning of the period	190	-	88	278
Additions	347	-	457	804
Amounts written off	(14)	-	(32)	(46)
Returned to performing or repaid	(178)	-	(26)	(204)
<b>Balance at end of the period</b>	345	-	487	832
<b>Restructured assets<sup>2</sup></b>				
Balance at beginning of the period	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	-	-
<b>Balance at end of the period</b>	-	-	-	-
<b>Total impaired assets</b>	345	-	487	832
<b>Total gross loans<sup>3,4</sup></b>	32,294	1,622	14,433	48,349
<b>Individually assessed provisions</b>				
Balance at beginning of the period	24	-	41	65
Impairment charges on loans:				
New provisions	70	-	300	370
Recoveries	(10)	-	(2)	(12)
Amounts written off	(14)	-	(32)	(46)
<b>Balance at end of the period</b>	70	-	307	377
<b>Collectively assessed provisions</b>				
Balance at beginning of the period	30	61	166	257
Impairment charges on loans	10	3	113	126
<b>Balance at end of the period</b>	40	64	279	383
<b>Total provision for impairment charges and credit commitments</b>	110	64	586	760
Less: Provision for credit commitments	-	-	(34)	(34)
<b>Total impairment provisions</b>	110	64	552	726
<b>Total net loans</b>	32,184	1,558	13,881	47,623

1 Past due assets are not impaired assets.

2 The Banking Group and the Bank do not have undrawn balances on past due 90+ days, individually impaired or restructured assets.

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

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

# Notes to the consolidated financial statements

## Note 5 Credit quality, impaired assets and provisions for impairment charges (continued)

<b>The Banking Group</b>				
Year Ended 30 September 2009 – Audited				
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
<b>Total neither past due nor impaired</b>	31,298	1,487	13,489	46,274
<b>Past due assets 1 to 89 days<sup>1</sup></b>				
Balance at beginning of the year	1,394	156	589	2,139
Additions	6,947	865	3,704	11,516
Deletions	(7,491)	(890)	(3,871)	(12,252)
<b>Balance at end of the year</b>	850	131	422	1,403
<b>Past due assets 90+ days<sup>1, 2</sup></b>				
Balance at beginning of the year	75	25	121	221
Additions	361	94	560	1,015
Deletions	(348)	(93)	(449)	(890)
<b>Balance at end of the year</b>	88	26	232	346
<b>Total past due assets<sup>1</sup></b>	938	157	654	1,749
<b>Individually impaired assets<sup>2</sup></b>				
Balance at beginning of the year	190	-	88	278
Additions	486	-	601	1,087
Amounts written off	(64)	-	(290)	(354)
Returned to performing or repaid	(261)	-	(80)	(341)
<b>Balance at end of the year</b>	351	-	319	670
<b>Restructured assets<sup>2</sup></b>				
Balance at beginning of the year	-	-	-	-
Additions	-	-	1	1
Deletions	-	-	-	-
<b>Balance at end of the year</b>	-	-	1	1
<b>Total impaired assets</b>	351	-	320	671
<b>Total gross loans<sup>3, 4</sup></b>	32,587	1,644	14,463	48,694
<b>Individually assessed provisions</b>				
Balance at beginning of the year	24	-	41	65
Impairment charges on loans:				
New provisions	102	-	332	434
Recoveries	(16)	-	(5)	(21)
Amounts written off	(44)	-	(284)	(328)
<b>Balance at end of the year</b>	66	-	84	150
<b>Collectively assessed provisions</b>				
Balance at beginning of the year	30	61	166	257
Impairment charges on loans	12	(1)	137	148
<b>Balance at end of the year</b>	42	60	303	405
<b>Total provision for impairment charges and credit commitments</b>	108	60	387	555
Less: Provision for credit commitments	-	-	(35)	(35)
<b>Total impairment provisions</b>	108	60	352	520
<b>Total net loans</b>	32,479	1,584	14,111	48,174

1 Past due assets are not impaired assets.

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

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

# Notes to the consolidated financial statements

## Note 6 Deposits

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
<b>Deposits at fair value</b>			
Certificates of deposit	1,975	4,427	3,468
<b>Total deposits at fair value</b>	<b>1,975</b>	<b>4,427</b>	<b>3,468</b>
<b>Deposits at amortised cost</b>			
Non-interest bearing, repayable at call	2,396	2,151	2,219
Other interest bearing:			
At call	10,081	10,709	10,619
Term	17,464	15,928	16,189
<b>Total deposits at amortised cost</b>	<b>29,941</b>	<b>28,788</b>	<b>29,027</b>
<b>Total deposits</b>	<b>31,916</b>	<b>33,215</b>	<b>32,495</b>

## Note 7 Trading liabilities and other financial liabilities designated at fair value

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
<b>Held for trading</b>			
Securities sold under agreements to repurchase	-	2,123	1,885
<b>Total trading liabilities and other financial liabilities designated at fair value</b>	<b>-</b>	<b>2,123</b>	<b>1,885</b>

## Note 8 Debt issues

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
<b>Short-term debt</b>			
Commercial paper	8,055	4,580	6,027
<b>Total short-term debt</b>	<b>8,055</b>	<b>4,580</b>	<b>6,027</b>
<b>Long-term debt</b>			
Euro medium-term notes	6,413	4,172	4,139
Domestic medium-term notes	2,261	1,624	2,203
<b>Total long-term debt</b>	<b>8,674</b>	<b>5,796</b>	<b>6,342</b>
<b>Total debt issues</b>	<b>16,729</b>	<b>10,376</b>	<b>12,369</b>
Government guaranteed debt <sup>1</sup>	4,424	2,205	4,129
Non-government guaranteed debt	12,305	8,171	8,240
<b>Total debt issues</b>	<b>16,729</b>	<b>10,376</b>	<b>12,369</b>
Debt issues at amortised cost	8,674	5,184	6,287
Debt issues at fair value	8,055	5,192	6,082
<b>Total debt issues</b>	<b>16,729</b>	<b>10,376</b>	<b>12,369</b>

<sup>1</sup> For further information on government guaranteed debt please refer to Guarantee arrangements on page 3.

### Movement in debt issues

The movement in debt issues during these reporting periods is as follows:

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Unaudited \$m
Balance at beginning of the period/year	12,369	11,102	11,102
Issuance	19,921	22,279	29,944
Repayments	(15,561)	(23,005)	(28,677)
<b>Balance at end of the period/year</b>	<b>16,729</b>	<b>10,376</b>	<b>12,369</b>

Certain comparative numbers have been reclassified due to continuing analysis of debt issues data.



# Notes to the consolidated financial statements

## Note 9 Related entities

There has been no change to the composition of the Banking Group since the publication of the General Disclosure Statement for the six months ended 31 March 2010.

## Note 10 Commitments and contingent liabilities

	The Banking Group		
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m	30 September 2009 Audited \$m
<b>Commitments for capital expenditure</b>			
Due within one year	70	36	25
<b>Other contingent liabilities and commitments</b>			
Direct credit substitutes	46	46	45
Commitments with certain drawdown	179	147	208
Transaction related contingent items	250	276	279
Short-term, self-liquidating trade-related contingent liabilities	649	686	678
Other commitments to provide financial services which have an original maturity of one year or more	6,080	6,496	6,502
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	4,535	4,035	3,978
<b>Total other contingent liabilities and commitments</b>	<b>11,739</b>	<b>11,686</b>	<b>11,690</b>

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

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

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

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

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

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

The Bank guarantees commercial paper and other debt securities issued by its wholly owned subsidiary Westpac Securities NZ Limited, the proceeds of which, in accordance with Reserve Bank guidelines, are immediately on-lent to the Bank. Guarantees outstanding as at 30 June 2010 were New Zealand dollar equivalent \$14,380 million (30 June 2009: \$8,754 million, 30 September 2009: \$10,168 million).

### Other contingent liabilities

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

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

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

### Other commitments

As at 30 June 2010, 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.

# Notes to the consolidated financial statements

## 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.

With the adoption of NZ IFRS 8 *Operating Segments* ('**NZ IFRS 8**'), the basis used in identifying segment categories has been changed from previous reporting periods. The basis used in the current reporting period reflects the key revenue earning sectors in which the Banking Group operates in New Zealand and aligns with internal reporting to key management personnel. The Banking Group does not rely on a major customer for its revenue base.

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

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

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

Reconciling items primarily represent:

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

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

	<b>The Banking Group</b>			
	<b>Nine Months Ended 30 June 2010 – Unaudited</b>			
	<b>Business Banking \$m</b>	<b>Consumer Banking \$m</b>	<b>Reconciling Items \$m</b>	<b>Total Consolidated \$m</b>
Revenue from external customers <sup>1</sup>	1,304	2,464	(945)	2,823
Internal revenue	3	1	(4)	-
<b>Total segment revenue</b>	<b>1,307</b>	<b>2,465</b>	<b>(949)</b>	<b>2,823</b>
<b>Profit/(loss) before income tax expense</b>	<b>224</b>	<b>398</b>	<b>(310)</b>	<b>312</b>
Income tax expense	(68)	(113)	82	(99)
<b>Profit/(loss) after income tax expense</b>	<b>156</b>	<b>285</b>	<b>(228)</b>	<b>213</b>
<b>Profit/(loss) after income tax expense attributable to:</b>				
Owners of the Banking Group	156	283	(228)	211
Non-controlling interests	-	2	-	2
	<b>156</b>	<b>285</b>	<b>(228)</b>	<b>213</b>
<b>Total gross loans</b>	<b>20,993</b>	<b>29,549</b>	<b>(157)</b>	<b>50,385</b>
<b>Total deposits</b>	<b>9,128</b>	<b>20,701</b>	<b>2,087</b>	<b>31,916</b>

<sup>1</sup> Revenue from external customers comprises interest income and non-interest income.

# Notes to the consolidated financial statements

## Note 11 Segment information (continued)

<b>The Banking Group</b>				
Nine Months Ended 30 June 2009 – Unaudited				
	Business Banking \$m	Consumer Banking \$m	Reconciling Items \$m	Total Consolidated \$m
Revenue from external customers <sup>1</sup>	1,557	2,862	(1,062)	3,357
Internal revenue	4	1	(5)	-
<b>Total segment revenue</b>	<b>1,561</b>	<b>2,863</b>	<b>(1,067)</b>	<b>3,357</b>
<b>(Loss)/profit before income tax expense</b>	<b>(20)</b>	<b>482</b>	<b>(196)</b>	<b>266</b>
Income tax credit/(expense)	6	(136)	52	(78)
<b>(Loss)/profit after income tax expense</b>	<b>(14)</b>	<b>346</b>	<b>(144)</b>	<b>188</b>
<b>(Loss)/profit after income tax expense attributable to:</b>				
Owners of the Banking Group	(14)	344	(144)	186
Non-controlling interests	-	2	-	2
	<b>(14)</b>	<b>346</b>	<b>(144)</b>	<b>188</b>
<b>Total gross loans</b>	<b>20,346</b>	<b>27,933</b>	<b>70</b>	<b>48,349</b>
<b>Total deposits</b>	<b>8,651</b>	<b>19,998</b>	<b>4,566</b>	<b>33,215</b>

  

<b>The Banking Group</b>				
Year Ended 30 September 2009 – Audited				
	Business Banking \$m	Consumer Banking \$m	Reconciling Items \$m	Total Consolidated \$m
Revenue from external customers <sup>1</sup>	1,983	3,688	(1,320)	4,351
Internal revenue	6	1	(7)	-
<b>Total segment revenue</b>	<b>1,989</b>	<b>3,689</b>	<b>(1,327)</b>	<b>4,351</b>
<b>Profit/(loss) before income tax expense</b>	<b>27</b>	<b>638</b>	<b>(314)</b>	<b>351</b>
Income tax expense	(8)	(183)	88	(103)
<b>Profit/(loss) after income tax expense</b>	<b>19</b>	<b>455</b>	<b>(226)</b>	<b>248</b>
<b>Profit/(loss) after income tax expense attributable to:</b>				
Owners of the Banking Group	19	452	(226)	245
Non-controlling interests	-	3	-	3
	<b>19</b>	<b>455</b>	<b>(226)</b>	<b>248</b>
<b>Total gross loans</b>	<b>20,293</b>	<b>28,236</b>	<b>165</b>	<b>48,694</b>
<b>Total deposits</b>	<b>8,738</b>	<b>20,109</b>	<b>3,648</b>	<b>32,495</b>

<sup>1</sup> Revenue from external customers comprises interest income and non-interest income.

# Notes to the consolidated financial statements

## Note 12 Securitisation, funds management and other fiduciary activities

### Securitisation

As at 30 June 2010 the Bank and the Banking Group had securitised assets amounting to \$452 million (30 June 2009: \$572 million), all having been sold by the Bank and the Banking Group to HLT and the Westpac Mortgage Investment Fund ('MIF') via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Bank and the Banking Group receive fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Bank and the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties.

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

### Funds management and other fiduciary activities

The Bank markets the products of BT Funds Management (NZ) Limited, a member of the Ultimate Parent Bank Group, through its branches, advisory network and private bank. The Bank derives distribution fees from the sale of managed fund products, superannuation and unit trusts marketed on behalf of BT Funds Management (NZ) Limited. The Bank also provides investment advice to a number of clients, which includes the provision of other fiduciary activities.

The Westpac Term PIE Fund ('Term PIE') is administered by the Banking Group and invests in deposits guaranteed under the New Zealand deposit guarantee scheme with the Bank. The Bank is considered to control Term PIE, and as such Term PIE is consolidated within the financial statements of the Banking Group. As at 30 June 2010, \$270 million (30 June 2009: nil) of funds under management were invested by Term PIE in the Bank's deposits.

### Marketing and distribution of insurance products

The Bank markets and distributes both life and general insurance products. The life insurance products are underwritten by Westpac Life-NZ Limited, a member of the Ultimate Parent Bank Group. The general insurance products are fully underwritten by external third party insurance companies. Disclosure statements are made in all marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

### Risk management

The Banking Group's risk management framework will help to 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 2010:

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

### Peak aggregate funding provided to entities

The Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product marketing and distribution activities described in this note, during the three months ended 30 June 2010 (three months ended 30 June 2009: nil).

In October and December 2008, the Banking Group provided funding to Westpac NZ Securitisation Limited ('WNZSL'), a member of the Banking Group involved in securitisation activities. This funding was provided on an intraday basis to facilitate the purchase of mortgages from the Bank in order to establish mortgage-backed securities under the internal mortgage-backed securitisation described above. As noted above, this was completed in two tranches, \$5.0 billion and \$2.5 billion. At all times during the three months ended 30 June 2010 the end-of-day balance of funding provided was nil. The peak end-of-day aggregate amount of funding provided to WNZSL (which is also the peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above), during the three months ended 30 June 2010 was nil (three months ended 30 June 2009: nil), and the peak end-of-day aggregate amount of funding provided to WNZSL expressed as percentage of the amount of WNZSL's assets was nil (30 June 2009: nil). The peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above expressed as percentage of the Banking Group's Tier One Capital was nil (30 June 2009: nil).

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the relevant three-month period and then dividing that amount by the amount of WNZSL's assets or the Banking Group's Tier One Capital (as the case required) as at the end of the quarter.

## Note 13 Insurance business

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

# Notes to the consolidated financial statements

## 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, amongst 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 2010, the Banking Group complied in full with all its externally imposed capital requirements.

### Summary of internal capital adequacy assessment process ('ICAAP')

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

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

### Banking Group capital summary

	The Banking Group	
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m
<b>Tier One Capital</b>		
Paid up share capital	3,470	3,470
Revenue and similar reserves <sup>1</sup>	303	16
Current period's retained profits	120	160
Non-controlling interests	6	7
<b>Less deductions from Tier One Capital</b>		
Goodwill	(477)	(477)
Other intangible assets	(93)	(95)
Cash flow hedge reserve	6	21
Deferred tax assets deduction	(47)	-
Expected loss excess over eligible allowance	(6)	(8)
<b>Total Tier One Capital</b>	<b>3,282</b>	<b>3,094</b>
<b>Tier Two Capital</b>		
<b>Upper Tier Two Capital</b>		
Perpetual subordinated notes	970	970
Current period's unaudited retained profits	96	26
<b>Total Upper – Tier Two Capital</b>	<b>1,066</b>	<b>996</b>
<b>Less deductions from Tier Two Capital</b>		
Expected loss excess over eligible allowance	(6)	(8)
<b>Total Tier Two Capital</b>	<b>1,060</b>	<b>988</b>
<b>Total Capital</b>	<b>4,342</b>	<b>4,082</b>

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

### Basel II

The global capital adequacy regime, known as Basel II, represents a major step in the evolution of risk and capital management and in prudential supervision of banking systems. The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Schedule 4B, Clause 13 of the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group	
	30 June 2010 Unaudited %	30 June 2009 Unaudited %
<b>Capital adequacy ratios</b>		
Tier One Capital ratio	9.5	9.4
Total Capital ratio	12.6	12.4
<b>Reserve Bank minimum ratios</b>		
Tier One Capital ratio <sup>1</sup>	4.0	4.0
Total Capital ratio	8.0	8.0

<sup>1</sup> In addition to this minimum 4%, locally incorporated registered banks having the benefit of the Wholesale Guarantee are required to maintain an additional 2% Tier One Capital ratio buffer. See the 'Wholesale Guarantee' section on page 5 for more information.

# Notes to the consolidated financial statements

## Note 14 Capital adequacy (continued)

### Basel I

The table below is disclosed in accordance with Schedule 4B, Clause 14 of the Order and represents the capital adequacy calculation based on the Basel I Capital adequacy framework.

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

	The Banking Group		The Bank	
	30 June 2010 Unaudited %	30 June 2009 Unaudited %	30 June 2010 Unaudited %	30 June 2009 Unaudited %
<b>Capital adequacy ratios</b>				
Tier One Capital Ratio	9.0	8.7	7.4	6.8
Total Capital Ratio	11.9	11.5	9.8	9.1
<b>Total risk-weighted exposures (\$m)</b>	<b>36,364</b>	<b>35,523</b>	<b>43,915</b>	<b>43,484</b>

### The Banking Group Pillar I total capital requirement

	The Banking Group		
	Nine Months ended 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 credit risk	65,914	28,636	2,290
Operational risk	n/a	3,264	261
Market risk	n/a	1,038	84
Supervisory adjustment	n/a	1,599	128
<b>Total</b>	<b>65,914</b>	<b>34,537</b>	<b>2,763</b>

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

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

### Pillar II capital for other material risk

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

#### Business risk

Business risk reflects the risk associated with the vulnerability of a line of business to changes in the business environment.

#### Liquidity risk

Liquidity risk is the risk that the Bank will be unable to fund increases in assets and meet obligations as they fall due, without incurring unacceptable losses.

#### Other asset risk

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

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

	The Banking Group	
	30 June 2010 Unaudited \$m	30 June 2009 Unaudited \$m
<b>Internal capital allocation</b>		
Other material risk	351	396

# Notes to the consolidated financial statements

## 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 the publication of the Bank's General Disclosure Statement for the six months ended 31 March 2010.

### 15.1 Operational risk

#### The Banking Group's operational risk capital requirement

	Nine Months Ended 30 June 2010 – Unaudited	
	Implied Risk-weighted Exposure \$m	Total Operational Risk Capital Requirement \$m
<b>Methodology implemented</b>		
<b>Advanced measurement approach</b>		
Operational risk	3,264	261

### 15.2 Credit risk

#### Definitions of PD, LGD and EAD

##### (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.

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

PD Band (%)	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) \$m	Required Regulatory Capital \$m
<b>Residential mortgages</b>						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	3,612	-	22	7	267	21
0.25 to 1.0	10,987	1	22	18	2,025	162
1.0 to 2.5	16,745	1	22	34	5,632	451
2.5 to 10.0	1,673	4	22	68	1,138	91
10.0 to 99.99	343	22	22	129	441	35
Default	900	100	22	200	1,799	144
<b>Total</b>	<b>34,260</b>	<b>4</b>	<b>22</b>	<b>33</b>	<b>11,302</b>	<b>904</b>
<b>Other retail (credit cards, personal loans, personal overdrafts)</b>						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	1,074	-	63	41	438	35
1.0 to 2.5	768	2	68	88	679	54
2.5 to 10.0	691	5	66	102	705	56
10.0 to 99.99	181	22	66	147	266	21
Default	53	100	65	367	195	16
<b>Total</b>	<b>2,767</b>	<b>5</b>	<b>65</b>	<b>82</b>	<b>2,283</b>	<b>182</b>
<b>Small business</b>						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	595	1	18	14	84	7
1.0 to 2.5	1,497	2	18	24	361	29
2.5 to 10.0	544	5	20	33	179	14
10.0 to 99.99	38	27	20	52	20	2
Default	164	100	19	197	323	26
<b>Total</b>	<b>2,838</b>	<b>8</b>	<b>18</b>	<b>34</b>	<b>967</b>	<b>78</b>

# Notes to the consolidated financial statements

## Note 15 Risk management (continued)

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

PD Grade	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) \$m	Required Regulatory Capital \$m
<b>Banking Group – Corporate</b>						
AAA	-	-	-	-	-	-
AA	11	-	60	11	1	-
A	102	-	60	26	26	2
BBB	356	-	54	52	187	15
BB	1,066	2	49	111	1,180	94
B	-	-	-	-	-	-
Other	373	23	53	290	1,082	87
Default	71	100	33	103	73	6
<b>Total</b>	<b>1,979</b>	<b>9</b>	<b>51</b>	<b>129</b>	<b>2,549</b>	<b>204</b>
<b>Business lending</b>						
AAA	-	-	-	-	-	-
AA	5	-	60	16	1	-
A	148	-	57	29	43	3
BBB	812	-	37	34	275	22
BB	5,759	2	28	57	3,289	263
B	201	3	33	76	152	12
Other	1,005	17	33	137	1,377	110
Default	155	100	37	139	217	17
<b>Total</b>	<b>8,085</b>	<b>5</b>	<b>31</b>	<b>66</b>	<b>5,354</b>	<b>427</b>
<b>Sovereign</b>						
AAA	2,293	-	5	1	12	1
AA	-	-	60	8	-	-
A	471	-	16	6	30	2
BBB	104	-	19	13	14	1
BB	1	1	27	68	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
<b>Total</b>	<b>2,869</b>	<b>-</b>	<b>8</b>	<b>2</b>	<b>56</b>	<b>4</b>
<b>Bank</b>						
AAA	-	-	-	-	-	-
AA	1,200	-	60	11	129	10
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
<b>Total</b>	<b>1,200</b>	<b>-</b>	<b>60</b>	<b>11</b>	<b>129</b>	<b>10</b>
<b>Equity</b>						
Equity holdings (not deducted from capital) that are publicly traded	44	-	-	300	132	11



# Notes to the consolidated financial statements

## Note 15 Risk management (continued)

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	5,328	526	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,638	1,101	-	-
Small business	979	567	-	-
Corporate	630	630	-	-
Business lending	1,187	1,187	-	-
Sovereign	163	163	-	-
Bank	-	-	-	-
<b>Total</b>	<b>10,925</b>	<b>4,174</b>	<b>-</b>	<b>-</b>

### The Banking Group's specialised lending: Project and property finance credit risk exposures as at 30 June 2010 (Unaudited)

Supervisory slotting grade	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) \$m	Required Regulatory Capital \$m
Strong	936	70	655	52
Good	1,661	90	1,495	120
Satisfactory	781	115	898	72
Weak	794	250	1,985	159
Default	162	-	-	-
<b>Total</b>	<b>4,334</b>	<b>116</b>	<b>5,033</b>	<b>403</b>

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

These amounts are included in the above table.

	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) \$m	Required Regulatory Capital \$m
Undrawn commitments and other off-balance sheet amounts	296	109	323	26

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

#### Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation \$m	Average Risk Weight %	Risk-weighted Exposure \$m	Minimum Capital Requirement \$m
Property, plant and equipment and other assets	261	100	261	21
Related parties	702	39	275	22
<b>Total on-balance sheet exposures</b>	<b>963</b>	<b>56</b>	<b>536</b>	<b>43</b>

#### Calculation of off-balance sheet exposures

	Total Principal Amount \$m	Credit Equivalent Amount \$m	Average Risk Weight %	Risk-weighted Exposure \$m	Minimum Capital Requirement \$m
<b>Market related contracts subject to the standardised approach</b>					
Foreign exchange contracts	14,335	436	20	87	7
Interest rate contracts	35,214	801	20	161	13
<b>Total market related contracts subject to the standardised approach</b>	<b>49,549</b>	<b>1,237</b>	<b>20</b>	<b>248</b>	<b>20</b>
<b>Standardised subtotal</b>				<b>784</b>	<b>63</b>
<b>After adjustment for scalar</b>				<b>831</b>	<b>67</b>

# Notes to the consolidated financial statements

## Note 15 Risk management (continued)

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

LVR range	0-60%	61-70%	71-80%	81-90%	Over 90%
Value of exposures (\$m)	12,124	5,673	7,962	4,970	2,988

### Note 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). The end-of-quarter aggregate market risk exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (Value-at-Risk ('VaR')) during the quarter, comparing this to the current and previous quarter end VaRs and calculating the peak risk by using the ratio of the peak to the quarter ends. This method is approximate only as the two methods differ in the assumed repricing characteristics of the balance sheet.

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

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

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

	The Banking Group					
	30 June 2010 – Unaudited			30 June 2009 – Unaudited		
	Implied Risk-weighted Exposure \$m	Aggregate Capital Charge \$m	Aggregate Capital Charge as a Percentage of the Banking Group's Equity %	Implied Risk-weighted Exposure \$m	Aggregate Capital Charge \$m	Aggregate Capital Charge as a Percentage of the Banking Group's Equity %
<b>End-of-period</b>						
Interest rate risk	950	76	1.90	688	55	1.49
Foreign currency risk	44	4	0.09	36	3	0.08
Equity risk	44	4	0.09	36	3	0.08
<b>Peak end-of-day</b>						
Interest rate risk	1,875	150	3.75	1,188	95	2.58
Foreign currency risk	54	4	0.11	43	3	0.08
Equity risk	54	4	0.11	43	3	0.08

## Note 16 Concentration of credit exposures to individual counterparties

The following tables summarise the number of:

- individual bank counterparties (which are not members of a group of closely related counterparties) and groups of closely related counterparties of which a bank is the parent; and
- individual non-bank counterparties (which are not members of a group of closely related counterparties) and groups of closely related counterparties of which a bank is not the parent,

to which the Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity.

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

### Balance date credit exposures

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

# Notes to the consolidated financial statements

## Note 16 Concentration of credit exposures to individual counterparties (continued)

Percentage of equity (%)	The Banking Group			
	Total Exposure to Banks (\$m)		Total Exposure to Non-banks (\$m)	
	As at 30 June 2010 Unaudited	As at 30 June 2009 Unaudited	As at 30 June 2010 Unaudited	As at 30 June 2009 Unaudited
10 - 19	1,005	-	-	-
20 - 29	-	917	-	-
30 - 39	-	1,221	-	-
40 - 49	-	-	-	-
50 - 59	-	-	-	-
60 - 69	-	-	-	-
70 - 79	-	-	-	-
80 - 89	-	-	-	-
90 - 100	-	-	-	-
<b>Total balance date credit exposures</b>	<b>1,005</b>	<b>2,138</b>	<b>-</b>	<b>-</b>

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

### Peak end-of-day aggregate credit exposures

Percentage of equity (%)	The Banking Group			
	Number of Banks		Number of Non-banks	
	For the Three Months Ended 30 June 2010 Unaudited	For the Three Months Ended 30 June 2009 Unaudited	For the Three Months Ended 30 June 2010 Unaudited	For the Three Months Ended 30 June 2009 Unaudited
10 - 19	2	1	-	-
20 - 29	2	1	-	-
30 - 39	-	-	-	-
40 - 49	-	1	-	-
50 - 59	-	-	-	-
60 - 69	-	-	-	-
70 - 79	-	-	-	-
80 - 89	-	-	-	-
90 - 100	-	-	-	-

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

The previous calculations as at 30 June 2009 and peak end-of-day aggregate for the three months ended 30 June 2009 (disclosed in the Banking Group's General Short Form Disclosure Statements for the nine months ended 30 June 2009) incorrectly reported credit exposures to individual bank counterparties as nil. The Banking Group is currently reviewing and enhancing its credit risk framework, including the process around monitoring and control of individual bank counterparties credit risk exposures.

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

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

# Notes to the consolidated financial statements

## Note 17 Credit exposures to connected persons and non-bank connected persons

The Banking Group's credit exposure to connected persons is derived in accordance with the Reserve Bank document 'Connected exposures policy' (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's Tier One Capital as at the end of the period.

Credit exposures to connected persons reported in the following table below have been calculated partially on a bilateral net basis, and partially on a gross basis. Netting has occurred in respect of certain transactions which are the subject of the bilateral netting agreements disclosed in the Bank's most recent Supplemental Disclosure Statement (refer to page 8). On this basis, there is a limit of 125% of the Banking Group's Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	<b>The Banking Group</b>			
	<b>As at 30 June 2010 Unaudited \$m</b>	<b>Peak End-of-Day for the Three Months Ended 30 June 2010 Unaudited \$m</b>	<b>As at 30 June 2009 Unaudited \$m</b>	<b>Peak End-of-Day for the Three Months Ended 30 June 2009 Unaudited \$m</b>
Credit exposures to connected persons:				
On gross basis, before netting	<b>870</b>	<b>2,168</b>	612	903
As a percentage of Tier One Capital of the Banking Group at the end of the period	<b>26.5%</b>	<b>66.0%</b>	19.8%	29.2%
Netted amount	<b>23</b>	<b>206</b>	123	107
As a percentage of Tier One Capital of the Banking Group at the end of the period	<b>0.7%</b>	<b>6.3%</b>	4.0%	3.5%
On partial bilateral net basis	<b>847</b>	<b>1,962</b>	489	796
As a percentage of Tier One Capital of the Banking Group at the end of the period	<b>25.8%</b>	<b>59.7%</b>	15.8%	25.7%
Credit exposures to non-bank connected persons	-	-	-	-
As a percentage of Tier One Capital of the Banking Group at the end of the period	<b>0.0%</b>	<b>0.0%</b>	0.0%	0.0%

Comparative peak end-of-day numbers for the Banking Group have been restated as a result of continuing analysis of the Banking Group's credit exposures to connected persons.

As at 30 June 2010 the rating-contingent limit applicable to the Banking Group was 75% of Tier One Capital. Within this overall rating-contingent limit there is a sub-limit of 15% of Tier One Capital which applies to the aggregate credit exposure to non-bank connected persons. There have been no changes to these limits during the three months ended 30 June 2010.

The limits on aggregate credit exposure to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the three months ended 30 June 2010.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with a syndicate of banks. These arrangements are called risk lay-off arrangements. As at 30 June 2010 the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons) (30 June 2009: nil).

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







