Westpac New Zealand Limited
General Short Form Disclosure Statement

For the three months ended 31 December 2010

Index

General information and definitions

Certain of the information contained in this General Short Form Disclosure Statement is 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**’); and
- 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, an Australian company (‘**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 of 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 voting 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, both the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited have 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**’) (refer to the Bank’s conditions of registration on page 4 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 most recently published General Disclosure Statement.

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, and 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.

Section 13A(3) of the Australian Banking Act provides 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, 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;
- 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, is 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

Philip Matthew Coffey, BEc (Hons.)

George Frazis, B.Eng. (Hons.), MBA (AGSM, Wharton)

Christopher John David Moller

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 the Bank's General Disclosure Statement for the year ended 30 September 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 as at the date the Directors signed this General Short Form Disclosure Statement.

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 was upgraded from AA- to AA with a 'stable' outlook. There have been no other changes to the Bank's credit rating or outlook issued by Fitch Ratings in the two years prior to 31 December 2010.

In the two years prior to 31 December 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 31 December 2010, the Bank's credit rating issued by Standard & Poor's has not changed at AA with a 'stable' outlook.

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

Descriptions of credit rating scales[1]

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

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

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

Ratings stated in **bold** indicate the 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

As at the beginning of the three month period ended 31 December 2010, the Bank had the following guarantees with the New Zealand Government ('**Crown**'):

(i) a Crown Wholesale Funding Guarantee Facility Deed and Crown Wholesale Funding Guarantee, each dated 23 February 2009 (together the '**Wholesale Guarantee**');

(ii) a Crown Deed of Guarantee dated 11 November 2008, amended by a supplemental deed dated 24 November 2008, under the New Zealand deposit guarantee scheme ('**Deposit Guarantee**'); and

(iii) a Crown Deed of Guarantee dated 16 December 2009 under the revised deposit guarantee scheme ('**Revised Deposit Guarantee**').

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

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

The following description of the Wholesale Guarantee is for general information purposes only and does not purport to be exhaustive. For full information on the terms of the Wholesale Guarantee refer to the Wholesale Guarantee, a copy of which is included in the Bank's Supplemental Disclosure Statement (refer to page 6).

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

(i) Minister of Finance, Parliament Buildings, Wellington; or

(ii) New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or

(iii) New Zealand Consul and Trade Commissioner at the address of the New Zealand Consulate-General in New York for the time being;

in each case with a copy (with delivery made by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Wholesale Guarantee, and the expired Deposit Guarantee and Revised Deposit Guarantee, is available from the New Zealand Treasury internet site www.treasury.govt.nz. The most recent audited financial statements of the Crown may also be obtained from the New Zealand 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

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

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.

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.

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.

Guarantee arrangements (continued)

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 Bank complies with this requirement.

Expiry and withdrawal of the guarantee

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

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

(i) the scheduled maturity date of the security under which that Guaranteed Liability arises; and

(ii) the date falling five years after the issue date of the security under which that Guaranteed Liability arises.

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

Conditions of registration

The conditions of registration imposed on the Bank, which applied from 31 December 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 October 2010 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 October 2010 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 October 2010 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 October 2010 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 October 2010 is 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 of New Zealand document 'Capital adequacy framework (Basel I approach)' (BS2) dated October 2010;

   (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 October 2010; 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, all calculated in accordance with the Reserve Bank of New Zealand document 'Capital adequacy framework (internal models based approach)' (BS2B) dated October 2010.

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 October 2010; 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 October 2010.

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 disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

Conditions of registration (continued)

(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.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank document entitled 'Connected exposures policy' (BS8) dated October 2010.

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:

(i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

(ii) the Reserve Bank has advised that it has no objection to that appointment.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

(a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

(b) that the Bank's financial risk positions on a day can be identified on that day;

(c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

(d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

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

Until 30 September 2011, services provided by Payments NZ Limited, and related settlement services provided to the Bank by Westpac Banking Corporation, 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.

Conditions of registration (continued)

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:
    (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
    (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
    (c) 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:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

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 22 December 2010, with effect from 31 December 2010 to reflect the revised Reserve Bank of New Zealand documents entitled 'Capital adequacy framework (Basel I approach)' (BS2) and 'Capital adequacy framework (internal models based approach)' (BS2B).

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.

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

As at 31 December 2010, business activities proposed to be transferred to the Bank include: customer loans of approximately $6.8 billion (30 September 2010: $6.7 billion) and customer deposits of approximately $5.5 billion (30 September 2010: $5.5 billion). It is currently anticipated that term intra-group funding of approximately $3.0 billion will be put in place. In addition, for the three months ended 31 December 2010, it is estimated that the business activities to be transferred to the Bank had aggregate revenues of approximately $45 million (year ended 30 September 2010: $180 million) and aggregate net profit after tax of approximately $28 million (year ended 30 September 2010: $115 million).

Under the proposed changes to the operating model, the NZ Branch will retain its financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers, pricing and risk management for interest rate, foreign exchange and commodity products for retail, business and institutional customers of the Bank, and trading of capital markets products and foreign exchange as principal. In addition, the NZ Branch will retain its global inter-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, or, within five working days of any request made at any branch of the Bank, at any staffed premises of an agency of the Bank primarily engaged in the business of the Bank, or at any 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 Crown Wholesale Funding Guarantee granted by the Crown in respect of the Bank (refer to page 3) and a copy of the bilateral netting agreement (refer to note 17).

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 three months ended 31 December 2010:

(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

Philip Matthew Coffey

George Frazis

Christopher John David Moller

Harold Maffey Price

Ralph Graham Waters

Dated this 16th day of February 2011

Consolidated financial statements

Contents

Consolidated income statement for the three months ended 31 December 2010

	Note	The Banking Group Three Months Ended 31 December 2010 Unaudited $m	Three Months Ended 31 December 2009 Unaudited $m	Year Ended 30 September 2010 Audited $m
Interest income		**898**	882	3,501
Interest expense		**(589)**	(597)	(2,337)
Net interest income		**309**	285	1,164
Non-interest income:				
Fees and commissions		**70**	72	287
Gain on ineffective hedges		**1**	3	3
Other non-interest income		**3**	3	1
Total non-interest income		**74**	78	291
Net operating income		**383**	363	1,455
Operating expenses		**(190)**	(178)	(704)
Impairment charges on loans	2	**(57)**	(125)	(334)
Operating profit		**136**	60	417
Share of profit of associate accounted for using the equity method		**-**	-	1
Profit before income tax expense		**136**	60	418
Income tax expense		**(41)**	(18)	(132)
Profit after income tax expense		**95**	42	286
Profit after income tax expense attributable to:				
Owners of the Banking Group		**94**	41	283
Non-controlling interests		**1**	1	3
		95	42	286

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 three months ended 31 December 2010

	The Banking Group		
	Three Months Ended 31 December 2010 Unaudited $m	Three Months Ended 31 December 2009 Unaudited $m	Year Ended 30 September 2010 Audited $m
Profit after income tax expense	**95**	42	286
Other comprehensive income:			
Net unrealised (losses)/gains from changes in fair value of available-for-sale securities	**(5)**	9	7
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	**(8)**	41	16
Transferred to the income statement	**2**	2	6
Actuarial losses on employee defined benefit superannuation schemes	**-**	-	(27)
Income tax relating to components of other comprehensive income[1]	**2**	(13)	-
Other comprehensive (expense)/income, net of tax	**(9)**	39	2
Total comprehensive income	**86**	81	288
Total comprehensive income attributable to:			
Owners of the Banking Group	**85**	80	285
Non-controlling interests	**1**	1	3
	86	81	288

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

Tax effects relating to each component of other comprehensive income

	The Banking Group		
	Before Tax Amount $m	**Tax Benefit/ (Expense) $m**	**Net of Tax Amount $m**
For the three months ended 31 December 2010 (Unaudited)			
Net unrealised losses from changes in fair value of available-for-sale securities	**(5)**	**-**	**(5)**
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	**(8)**	**3**	**(5)**
Transferred to the income statement	**2**	**(1)**	**1**
Other comprehensive expense	**(11)**	**2**	**(9)**
For the three months ended 31 December 2009 (Unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	9	-	9
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	41	(12)	29
Transferred to the income statement	2	(1)	1
Other comprehensive income	52	(13)	39
For the year ended 30 September 2010 (Audited)			
Net unrealised gains from changes in fair value of available-for-sale securities	7	-	7
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	16	(6)	10
Transferred to the income statement	6	(2)	4
Actuarial losses on employee defined benefit superannuation schemes	(27)	8	(19)
Other comprehensive income	2	-	2

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

Consolidated statement of changes in equity for the three months ended 31 December 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**
As at 1 October 2009	3,470	284	18	(15)	3,757	7	3,764
Three months ended 31 December 2009							
Profit after income tax expense	-	41	-	-	41	1	42
Other comprehensive income	-	-	9	30	39	-	39
Total comprehensive income for the three months ended 31 December 2009	-	41	9	30	80	1	81
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(3)	(3)
As at 31 December 2009 (Unaudited)	3,470	325	27	15	3,837	5	3,842
Year ended 30 September 2010							
Profit after income tax expense	-	283	-	-	283	3	286
Other comprehensive (expense)/income	-	(19)	7	14	2	-	2
Total comprehensive income for the year ended 30 September 2010	-	264	7	14	285	3	288
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 30 September 2010 (Audited)	3,470	548	25	(1)	4,042	6	4,048
Three months ended 31 December 2010							
Profit after income tax expense	**-**	**94**	**-**	**-**	**94**	**1**	**95**
Other comprehensive expense	**-**	**-**	**(5)**	**(4)**	**(9)**	**-**	**(9)**
Total comprehensive income/(expense) for the three months ended 31 December 2010	**-**	**94**	**(5)**	**(4)**	**85**	**1**	**86**
As at 31 December 2010 (Unaudited)	**3,470**	**642**	**20**	**(5)**	**4,127**	**7**	**4,134**

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 31 December 2010

		The Banking Group		
	Note	**31 December 2010 Unaudited $m**	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Assets				
Cash and balances with central banks		**583**	324	522
Due from other financial institutions		**3**	2	3
Derivative financial instruments		**16**	18	17
Trading securities and other financial assets designated at fair value	3	**2,958**	4,252	2,587
Available-for-sale securities		**40**	46	44
Loans	4,5	**50,072**	48,795	50,034
Due from related entities		**1,462**	836	830
Current tax assets		**2**	-	-
Investment in associate		**48**	48	48
Goodwill and other intangible assets		**561**	574	567
Property, plant and equipment		**134**	99	127
Deferred tax assets		**261**	211	257
Other assets		**153**	152	143
Total assets		**56,293**	55,357	55,179
Liabilities				
Deposits at fair value	6	**2,030**	2,571	1,990
Deposits at amortised cost	6	**31,224**	29,190	30,476
Trading liabilities and other financial liabilities designated at fair value	7	**-**	601	-
Debt issues	8	**15,461**	15,770	15,439
Current tax liabilities		**-**	36	14
Provisions		**61**	69	73
Other liabilities		**581**	503	541
Total liabilities excluding perpetual subordinated notes and due to related entities		**49,357**	48,740	48,533
Perpetual subordinated notes		**970**	970	970
Total liabilities excluding due to related entities		**50,327**	49,710	49,503
Due to related entities		**1,832**	1,805	1,628
Total liabilities		**52,159**	51,515	51,131
Net assets		**4,134**	3,842	4,048
Equity				
Share capital		**3,470**	3,470	3,470
Retained profits		**642**	325	548
Available-for-sale securities reserve		**20**	27	25
Cash flow hedge reserve		**(5)**	15	(1)
Total equity attributable to owners of the Banking Group		**4,127**	3,837	4,042
Non-controlling interests		**7**	5	6
Total equity		**4,134**	3,842	4,048
Interest earning and discount bearing assets		**54,997**	54,118	54,051
Interest and discount bearing liabilities		**47,381**	47,299	46,978

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 three months ended 31 December 2010

	The Banking Group		
	Three Months Ended 31 December 2010 Unaudited $m	Three Months Ended 31 December 2009 Unaudited $m	Year Ended 30 September 2010 Audited $m
Cash flows from operating activities			
Interest income received	**906**	889	3,499
Interest expense paid	**(559)**	(599)	(2,306)
Non-interest income received	**69**	72	306
Net (increase)/decrease in trading securities and other financial assets designated at fair value	**(371)**	169	1,834
Net decrease in trading liabilities and other financial liabilities designated at fair value	**-**	(1,284)	(1,880)
Operating expenses paid	**(188)**	(168)	(629)
Income tax paid	**(60)**	(1)	(125)
Net cash (used in)/provided by operating activities	**(203)**	(922)	699
Cash flows from investing activities			
Net loans advanced to customers	**(96)**	(746)	(2,200)
Net increase in due from related entities	**(632)**	(216)	(242)
Net increase in other assets	**(13)**	-	(8)
Purchase of capitalised computer software	**(6)**	(9)	(35)
Purchase of property, plant and equipment	**(12)**	(14)	(59)
Proceeds from disposal of property, plant and equipment	**-**	-	1
Net cash used in investing activities	**(759)**	(985)	(2,543)
Cash flows from financing activities			
Net increase/(decrease) in deposits	**788**	(734)	(29)
Net proceeds from debt issues	**22**	3,401	3,070
Net increase/(decrease) in due to related entities	**197**	(622)	(834)
Net increase/(decrease) in other liabilities	**16**	(25)	(50)
Payment of dividends	**-**	(3)	(4)
Net cash provided by financing activities	**1,023**	2,017	2,153
Net increase in cash and cash equivalents	**61**	110	309
Cash and cash equivalents at beginning of the period/year	**525**	216	216
Cash and cash equivalents at end of the period/year	**586**	326	525
Cash and cash equivalents comprise:			
Cash and balances with central banks	**583**	324	522
Due from other financial institutions – at call	**3**	2	3
Cash and cash equivalents at end of the period/year	**586**	326	525
Reconciliation of profit after income tax expense to net cash (used in)/ provided by operating activities			
Profit after income tax expense	**95**	42	286
Adjustments:			
Software amortisation costs	**12**	10	43
Impairment charges on loans	**57**	125	334
Depreciation on property, plant and equipment	**5**	7	23
Share-based payments	**1**	1	2
Movement in accrued assets	**3**	(10)	7
Movement in accrued liabilities and provisions	**13**	(4)	43
Movement in current and deferred tax	**(19)**	18	7
Movement in trading securities and other financial assets designated at fair value	**(371)**	169	1,834
Movement in trading liabilities and other financial liabilities designated at fair value	**-**	(1,284)	(1,885)
Movement in derivative financial instruments	**1**	4	5
Net cash (used in)/provided by operating activities	**(203)**	(922)	699

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 have been 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 the New Zealand equivalent to International Accounting Standard ('NZ IAS') 34 Interim Financial Reporting and should be read in conjunction with the General Disclosure Statement for the year ended 30 September 2010.

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

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

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

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

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

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

These financial statements were authorised for issue by the Board on 16 February 2011. 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 as were used in preparing the General Disclosure Statement for the year ended 30 September 2010, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the "Statutory base" section above.

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

Principles of consolidation

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

Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Banking Group.

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

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

Note 2 Impairment charges on loans

	The Banking Group			
	Residential Mortgages $m	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**
Three months ended 31 December 2010 (Unaudited)				
Collectively assessed provisions	**(2)**	**-**	**-**	**(2)**
Individually assessed provisions	**23**	**-**	**32**	**55**
Bad debt write-off direct to the income statement	**1**	**11**	**3**	**15**
Interest adjustments	**(2)**	**(4)**	**(5)**	**(11)**
Total impairment charges on loans	**20**	**7**	**30**	**57**
Three months ended 31 December 2009 (Unaudited)				
Collectively assessed provisions	32	49	(23)	58
Individually assessed provisions	23	-	34	57
Bad debt write-off direct to the income statement	2	14	3	19
Interest adjustments	(1)	(3)	(5)	(9)
Total impairment charges on loans	56	60	9	125
Year ended 30 September 2010 (Audited)				
Collectively assessed provisions	38	44	(30)	52
Individually assessed provisions	83	-	172	255
Bad debt write-off direct to the income statement	9	54	6	69
Interest adjustments	(5)	(18)	(19)	(42)
Total impairment charges on loans	125	80	129	334

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

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Trading securities			
Listed:			
NZ Government securities	**1,772**	2,240	1,381
Total listed securities	**1,772**	2,240	1,381
Unlisted:			
NZ corporate securities:			
Certificates of deposit	**1,186**	2,012	1,206
Total unlisted securities	**1,186**	2,012	1,206
Total trading securities	**2,958**	4,252	2,587
Other financial assets designated at fair value	**-**	-	-
Total trading securities and other financial assets designated at fair value	**2,958**	4,252	2,587

As at 31 December 2010 no trading securities in the Banking Group (31 December 2009: nil, 30 September 2010: nil) were encumbered through repurchase agreements.

Note 4 Loans

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Overdrafts	**907**	928	1,003
Credit card outstandings	**1,305**	1,240	1,250
Money market loans	**597**	663	590
Term loans:			
Housing	**34,302**	33,149	34,249
Non-housing	**13,454**	13,176	13,386
Other	**256**	255	285
Total gross loans	**50,821**	49,411	50,763
Provisions for impairment charges on loans	**(749)**	(616)	(729)
Total net loans	**50,072**	48,795	50,034

The repurchase cash amount of the Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities as at 31 December 2010 was nil (31 December 2009: $601 million, 30 September 2010: nil) with no underlying securities (31 December 2009: $716 million, 30 September 2010: nil) provided under the arrangement.

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

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

	The Banking Group			
	Three months ended 31 December 2010 (Unaudited)			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Total neither past due nor impaired	32,665	1,628	13,628	47,921
Past due assets 1 to 89 days[1]				
Balance at beginning of the period	1,111	137	470	1,718
Additions	1,752	202	634	2,588
Deletions	(1,562)	(208)	(681)	(2,451)
Balance at end of the period	1,301	131	423	1,855
Past due assets 90+ days[1, 2]				
Balance at beginning of the period	97	20	280	397
Additions	120	15	72	207
Deletions	(85)	(16)	(145)	(246)
Balance at end of the period	132	19	207	358
Total past due assets[1]	1,433	150	630	2,213
Individually impaired assets[2]				
Balance at beginning of the period	302	-	440	742
Additions	44	-	102	146
Amounts written off	(17)	-	(24)	(41)
Returned to performing or repaid	(125)	-	(35)	(160)
Balance at end of the period	204	-	483	687
Restructured assets[2]				
Balance at beginning of the period	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	-	-
Balance at end of the period	-	-	-	-
Total impaired assets	204	-	483	687
Total gross loans[3, 4]	34,302	1,778	14,741	50,821
Individually assessed provisions				
Balance at beginning of the period	80	-	221	301
Impairment charges on loans:	-	-	-	
New provisions	29	-	35	64
Recoveries	(6)	-	(3)	(9)
Impairment charges on loans written off	(14)	-	(20)	(34)
Balance at end of the period	89	-	233	322
Collectively assessed provisions				
Balance at beginning of the period	80	104	273	457
Impairment charges on loans	(2)	-	-	(2)
Balance at end of the period	78	104	273	455
Total provisions for impairment charges on loans and credit commitments	167	104	506	777
Less: Provisions for impairment charges on credit commitments	-	-	(28)	(28)
Total provisions for impairment charges on loans	167	104	478	749
Total net loans	34,135	1,674	14,263	50,072

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

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.

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

	The Banking Group			
	Three months ended 31 December 2009 (Unaudited)			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Total neither past due nor impaired	31,724	1,485	13,554	46,763
Past due assets 1 to 89 days[1]				
Balance at beginning of the period	850	131	422	1,403
Additions	1,437	210	746	2,393
Deletions	(1,307)	(203)	(680)	(2,190)
Balance at end of the period	980	138	488	1,606
Past due assets 90+ days[1, 2]				
Balance at beginning of the period	88	26	232	346
Additions	72	20	59	151
Deletions	(69)	(21)	(52)	(142)
Balance at end of the period	91	25	239	355
Total past due assets[1]	1,071	163	727	1,961
Individually impaired assets[2]				
Balance at beginning of the period	351	-	319	670
Additions	104	-	208	312
Amounts written off	(19)	-	8	(11)
Returned to performing or repaid	(82)	-	(202)	(284)
Balance at end of the period	354	-	333	687
Restructured assets[2]				
Balance at beginning of the period	-	-	1	1
Additions	-	-	-	-
Deletions	-	-	(1)	(1)
Balance at end of the period	-	-	-	-
Total impaired assets	354	-	333	687
Total gross loans[3, 4]	33,149	1,648	14,614	49,411
Individually assessed provisions				
Balance at beginning of the period	66	-	84	150
Impairment charges on loans:				
New provisions	30	-	36	66
Recoveries	(7)	-	(2)	(9)
Impairment charges on loans written off	(17)	-	(3)	(20)
Balance at end of the period	72	-	115	187
Collectively assessed provisions				
Balance at beginning of the period	42	60	303	405
Impairment charges on loans	32	49	(23)	58
Balance at end of the period	74	109	280	463
Total provisions for impairment charges on loans and credit commitments	146	109	395	650
Less: Provisions for impairment charges on credit commitments	-	-	(34)	(34)
Total provisions for impairment charges on loans	146	109	361	616
Total net loans	33,003	1,539	14,253	48,795

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

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.

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

	The Banking Group			
	Year ended 30 September 2010 (Audited)			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Total neither past due nor impaired	32,739	1,565	13,602	47,906
Past due assets 1 to 89 days[1]				
Balance at beginning of the year	850	131	422	1,403
Additions	5,981	835	3,146	9,962
Deletions	(5,720)	(829)	(3,098)	(9,647)
Balance at end of the year	1,111	137	470	1,718
Past due assets 90+ days[1, 2]				
Balance at beginning of the year	88	26	232	346
Additions	296	74	551	921
Deletions	(287)	(80)	(503)	(870)
Balance at end of the year	97	20	280	397
Total past due assets[1]	1,208	157	750	2,115
Individually impaired assets[2]				
Balance at beginning of the year	351	-	319	670
Additions	383	-	446	829
Amounts written off	(78)	-	(50)	(128)
Returned to performing or repaid	(354)	-	(275)	(629)
Balance at end of the year	302	-	440	742
Restructured assets[2]				
Balance at beginning of the year	-	-	1	1
Additions	-	-	-	-
Deletions	-	-	(1)	(1)
Balance at end of the year	-	-	-	-
Total impaired assets	302	-	440	742
Total gross loans[3, 4]	34,249	1,722	14,792	50,763
Individually assessed provisions				
Balance at beginning of the year	66	-	84	150
Impairment charges on loans:				
New provisions	105	-	201	306
Recoveries	(22)	-	(29)	(51)
Impairment charges on loans written off	(69)	-	(35)	(104)
Balance at end of the year	80	-	221	301
Collectively assessed provisions				
Balance at beginning of the year	42	60	303	405
Impairment charges on loans	38	44	(30)	52
Balance at end of the year	80	104	273	457
Total provisions for impairment charges on loans and credit commitments	160	104	494	758
Less: Provisions for impairment charges on credit commitments	-	-	(29)	(29)
Total provisions for impairment charges on loans	160	104	465	729
Total net loans	34,089	1,618	14,327	50,034

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

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.

Note 6 Deposits

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Deposits at fair value			
Certificates of deposit	**1,939**	2,440	1,902
Term deposits	**91**	131	88
Total deposits at fair value	**2,030**	2,571	1,990
Deposits at amortised cost			
Non-interest bearing deposits, repayable at call	**2,649**	2,510	2,410
Other interest bearing deposits:			
At call	**10,439**	10,542	10,294
Term	**18,136**	16,138	17,772
Total deposits at amortised cost	**31,224**	29,190	30,476
Total deposits	**33,254**	31,761	32,466

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

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Held for trading			
Securities sold under agreements to repurchase	**-**	601	-
Total trading liabilities	**-**	601	-
Other financial liabilities designated at fair value	**-**	-	-
Total trading liabilities and other financial liabilities designated at fair value	**-**	601	-

Note 8 Debt issues

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Short-term debt			
Commercial paper	**6,953**	8,488	6,546
Total short-term debt	**6,953**	8,488	6,546
Long-term debt			
Euro medium-term notes	**6,318**	5,764	6,711
Domestic medium-term notes	**2,190**	1,518	2,182
Total long-term debt	**8,508**	7,282	8,893
Total debt issues	**15,461**	15,770	15,439
Government guaranteed debt[1]	**4,041**	4,113	4,141
Non-government guaranteed debt	**11,420**	11,657	11,298
Total debt issues	**15,461**	15,770	15,439
Debt issues at amortised cost	**8,508**	7,282	8,893
Debt issues at fair value	**6,953**	8,488	6,546
Total debt issues	**15,461**	15,770	15,439
Movement in debt issues			
Balance at beginning of the period/year	**15,439**	12,369	12,369
Issuance during the period/year	**3,600**	8,150	22,867
Repayments during the period/year	**(3,578)**	(4,749)	(19,797)
Balance at end of the period/year	**15,461**	15,770	15,439

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

Note 9 Related entities

Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, Westpac NZ Covered Bond Limited ('**WNZCBL**'), were incorporated on 22 November 2010. The Banking Group, through its subsidiary, Westpac NZ Operations Limited, has a qualifying interest of 9.5% in WNZCBHL. As a consequence of the contractual arrangements in place both WNZCBHL and WNZCBL are consolidated into the financial statements of the Banking Group. This change has no material impact on the Banking Group's result or financial position.

There have been no other changes to the composition of the Banking Group since the publication of the General Disclosure Statement for the year ended 30 September 2010.

Note 10 Commitments and contingent liabilities

	The Banking Group		
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m	30 September 2010 Audited $m
Commitments for capital expenditure			
Due within one year	**22**	13	30
Other expenditure commitments are due as follows:			
One year or less	**68**	68	88
Between one and five years	**71**	135	109
Over five years	**4**	4	4
Total other expenditure commitments	**143**	207	201
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**198**	197	205
Motor vehicles	**6**	4	6
Total lease commitments	**204**	201	211
Lease commitments are due as follows:			
One year or less	**46**	38	43
Between one and five years	**88**	83	94
Over five years	**70**	80	74
Total lease commitments	**204**	201	211
Other contingent liabilities and commitments			
Direct credit substitutes	**54**	43	52
Loan commitments with certain drawdown	**142**	237	105
Transaction related contingent items	**257**	245	254
Short-term, self liquidating trade related contingent liabilities	**691**	696	758
Other commitments to provide financial services which have an original maturity of one year or more	**6,077**	6,338	5,925
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	**4,533**	3,596	4,487
Total other contingent liabilities and commitments	**11,754**	11,155	11,581

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

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

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

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

The Banking Group is obliged to repurchase securitised loans:

(a) held by the Westpac Home Loan Trust ('**HLT**') where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;

(b) held by the Westpac NZ Securitisation Limited securitisation programme where the securitised loans cease to conform to certain terms and conditions of the Westpac NZ Securitisation Limited securitisation programme;

Note 10 Commitments and contingent liabilities (continued)

(c) held by WNZCBL (pursuant to the Westpac Securities NZ Limited Global Covered Bond Programme) where:

(i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);

(ii) the securitised loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of such securitised loan; or

(iii) at the cut-off date relating to the securitised loan there were arrears of interest and that securitised loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the securitised loan.

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

The Bank guarantees commercial paper and other debt securities issued by its wholly-owned subsidiary, 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 31 December 2010 were New Zealand dollar equivalent $13,225 million (31 December 2009: $13,654 million, 30 September 2010: $13,114 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 the 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 31 December 2010 was estimated to be $22 million (31 December 2009: $22 million, 30 September 2010: $22 million). No amount has been recognised for the $22 million in estimated maximum vacation payments as the Banking Group believes it is highly unlikely that Westpac (NZ) Investments Limited would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Other commitments

As at 31 December 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.

Note 11 Segment information

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

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

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

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

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

- Business Banking provides financial services for small to medium 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 *Operating Segments*;
- elimination entries on consolidation of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Note 11 Segment information (continued)

	The Banking Group			
	Business Banking $m	Consumer Banking $m	Reconciling Items $m	Total Consolidated $m
Three months ended 31 December 2010 (Unaudited)				
Revenue from external customers[1]	**477**	**872**	**(377)**	**972**
Internal revenue	**1**	**-**	**(1)**	**-**
Total segment revenue	**478**	**872**	**(378)**	**972**
Profit before income tax expense	**82**	**172**	**(118)**	**136**
Income tax expense	**(25)**	**(50)**	**34**	**(41)**
Profit after income tax expense	**57**	**122**	**(84)**	**95**
Profit after income tax expense attributable to:				
Owners of the Banking Group	**57**	**121**	**(84)**	**94**
Non-controlling interests	**-**	**1**	**-**	**1**
	57	**122**	**(84)**	**95**
Total gross loans	**21,039**	**29,980**	**(198)**	**50,821**
Total deposits	**9,509**	**21,715**	**2,030**	**33,254**
Three months ended 31 December 2009 (Unaudited)				
Revenue from external customers[1]	344	587	29	960
Internal revenue	-	-	-	-
Total segment revenue	344	587	29	960
Profit before income tax expense	91	71	(102)	60
Income tax expense	(28)	(20)	30	(18)
Profit after income tax expense	63	51	(72)	42
Profit after income tax expense attributable to:				
Owners of the Banking Group	63	50	(72)	41
Non-controlling interests	-	1	-	1
	63	51	(72)	42
Total gross loans	20,679	28,830	(98)	49,411
Total deposits	8,941	20,249	2,571	31,761
Year ended 30 September 2010 (Audited)				
Revenue from external customers[1]	1,773	3,318	(1,299)	3,792
Internal revenue	3	2	(5)	-
Total segment revenue	1,776	3,320	(1,304)	3,792
Profit before income tax expense	271	558	(411)	418
Income tax expense	(82)	(156)	106	(132)
Profit after income tax expense	189	402	(305)	286
Profit after income tax expense attributable to:				
Owners of the Banking Group	189	399	(305)	283
Non-controlling interests	-	3	-	3
	189	402	(305)	286
Total gross loans	20,995	29,811	(43)	50,763
Total deposits	9,410	21,066	1,990	32,466

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

Note 12 Securitisation, funds management and other fiduciary activities

Securitisation

As at 31 December 2010 the Bank and the Banking Group had securitised loans amounting to $379 million (31 December 2009: $475 million), which had been sold by the Bank and the Banking Group to HLT and the Westpac Mortgage Investment Fund ('**MIF**') via 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 loans 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.

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

In addition, the Bank executed:

(a) a mortgage-backed securitisation programme in October 2008, which was reduced from $7.5 billion to $5.0 billion on 11 January 2011. These securities are currently held by the Bank and the most senior rated securities ($4.75 billion) also qualify as eligible collateral for repurchase agreements with the Reserve Bank. Holding a portion of secured loans 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 loans from their own balance sheets as collateral for the Reserve Bank's repurchase agreements; and

(b) a global covered bond programme in December 2010, which allows for the issue of mortgage-backed securities to the market for funding purposes. No securities have yet been issued under this programme. As at 20 January 2011 the Bank had transferred $2.75 billion of secured loans to WNZCBL (comprising $0.25 billion of secured loans transferred on 1 December 2010 and $2.5 billion on 20 January 2011).

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 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 31 December 2010 $343 million (31 December 2009: $151 million) of funds under management were invested by the 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 three months ended 31 December 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 31 December 2010 (three months ended 31 December 2009: nil).

In October 2008 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 secured loans from the Bank in order to establish mortgage-backed securities under the mortgage-backed securitisation described above in (a). At all times during the three months ended 31 December 2010 the end-of-day balance of funding provided to WNZSL was nil. The peak end-of-day aggregate amount of funding provided to WNZSL during the three months ended 31 December 2010 was nil (three months ended 31 December 2009: nil), and the peak end-of-day aggregate amount of funding provided to WNZSL expressed as a percentage of the amount of WNZSL's assets was nil (31 December 2009: nil).

In December 2010 the Banking Group provided $250 million of funding to WNZCBL, a member of the Banking Group involved in securitisation activities. This funding was provided to facilitate the purchase of secured loans from the Bank in order to establish covered bonds under the global covered bond programme described above in (b). From the incorporation of WNZCBL on 22 November 2010 (refer to note 9) to 30 November 2010 the end-of-day balance of funding provided to WNZCBL was nil. At all times during the month ended 31 December 2010 the end-of-day balance of funding provided to WNZCBL was $250 million. The peak end-of-day aggregate amount of funding provided to WNZCBL (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 31 December 2010 was $250 million, and the peak end-of-day aggregate amount of funding provided to WNZCBL expressed as a percentage of the amount of WNZCBL's assets was 100%.

The peak end-of-day aggregate amount of funding of $250 million provided to all entities conducting the activities described above, expressed as a percentage of the Banking Group's Tier One Capital was 7.38% (31 December 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, WNZCBL'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).

Note 14 Capital adequacy

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

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

During the three months ended 31 December 2010 the Banking Group complied in full with all its externally imposed capital requirements.

Summary of ICAAP

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

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

The Banking Group's capital summary

	The Banking Group	
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m
Tier One Capital		
Paid up share capital	**3,470**	3,470
Revenue and similar reserves[1]	**563**	326
Non-controlling interests	**7**	5
Less deductions from Tier One Capital		
Goodwill	**(477)**	(477)
Other intangible assets	**(84)**	(97)
Cash flow hedge reserve	**5**	(15)
Deferred tax assets deduction	**(76)**	(35)
Expected loss excess over eligible allowance	**(20)**	(9)
Total Tier One Capital	**3,388**	3,168
Tier Two Capital		
Upper Tier Two Capital		
Perpetual subordinated notes	**970**	970
Current period's unaudited retained profits	**94**	41
Total Upper – Tier Two Capital	**1,064**	1,011
Less deductions from Tier Two Capital		
Expected loss excess over eligible allowance	**(20)**	(9)
Total Tier Two Capital	**1,044**	1,002
Total Capital	**4,432**	4,170

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

Basel II

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

The table below is disclosed in accordance with 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	
	31 December 2010 Unaudited %	31 December 2009 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	**9.7**	9.5
Total Capital ratio	**12.7**	12.5
Reserve Bank minimum ratios		
Tier One Capital ratio[1]	**4.0**	4.0
Total Capital ratio	**8.0**	8.0

1 Locally incorporated registered banks having the benefit of the Wholesale Guarantee are required to maintain an additional 2% Tier One Capital ratio buffer (refer to page 3 for more information).

Note 14 Capital adequacy (continued)

The Banking Group's Pillar I total capital requirement

	The Banking Group		
	31 December 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	65,237	30,525	2,442
Operational risk	n/a	3,535	283
Market risk	n/a	855	68
Supervisory adjustment	n/a	-	-
Total	65,237	34,915	2,793

The supervisory adjustment comprises an adjustment (if required) to bring risk-weighted assets to 90% of adjusted Basel I capital, as per the Bank's conditions of registration.

Pillar II capital for other material risk

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

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

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

	The Banking Group	
	31 December 2010 Unaudited $m	31 December 2009 Unaudited $m
Internal capital allocation		
Other material risk	349	352

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	
	31 December 2010 Unaudited %	31 December 2009 Unaudited %	31 December 2010 Unaudited %	31 December 2009 Unaudited %
Capital adequacy ratios				
Tier One Capital ratio	9.1	8.7	7.4	7.1
Total Capital ratio	12.0	11.5	9.8	9.4
Total risk-weighted exposures ($m)	37,212	36,294	45,150	44,074

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 signing of the Bank's General Disclosure Statement for the year ended 30 September 2010.

15.1 Operational risk

The Banking Group's operational risk capital requirement

	31 December 2010 (Unaudited) Implied Risk-weighted Exposure $m	Total Operational Risk Capital Requirement $m
Methodology implemented		
Advanced measurement approach		
Operational risk	3,535	283

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 includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. The value of the guarantees is not separately recorded, and therefore not available for disclosure.

The Banking Group's credit risk exposures by asset class as at 31 December 2010 (Unaudited)

PD Band (%)	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Residential mortgages						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	1,909	-	22	8	162	13
0.25 to 1.0	17,764	1	22	19	3,447	276
1.0 to 2.5	13,829	1	22	36	4,937	395
2.5 to 10.0	4,053	5	22	70	2,842	227
10.0 to 99.99	-	-	-	-	-	-
Default	732	100	22	191	1,401	112
Total	38,287	3	22	33	12,789	1,023
Other retail (credit cards, personal loans, personal overdrafts)						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	444	-	41	14	62	5
0.25 to 1.0	1,078	-	63	40	427	34
1.0 to 2.5	1,119	2	67	93	1,046	83
2.5 to 10.0	328	5	82	130	425	34
10.0 to 99.99	215	19	70	152	327	26
Default	48	100	67	410	195	16
Total	3,232	4	64	77	2,482	198
Small business						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	191	-	148	26	50	4
0.25 to 1.0	718	1	24	23	162	13
1.0 to 2.5	-	-	-	-	-	-
2.5 to 10.0	1,945	3	19	29	559	45
10.0 to 99.99	37	20	25	57	21	2
Default	178	100	23	271	481	38
Total	3,069	8	29	41	1,273	102

Note 15 Risk management (continued)

The Banking Group's credit risk exposures by asset class as at 31 December 2010 (Unaudited) (continued)

PD Grade	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Corporate						
AAA	-	-	-	-	-	-
AA	11	-	49	14	2	-
A	89	-	56	25	23	2
BBB	485	-	52	47	226	18
BB	1,112	2	47	103	1,144	92
B	59	3	65	176	103	8
Other	362	28	57	307	1,111	89
Default	171	100	39	56	95	8
Total	2,289	13	50	118	2,704	217
Business lending						
AAA	-	-	-	-	-	-
AA	11	-	60	23	3	-
A	128	-	58	32	40	3
BBB	793	-	38	30	239	19
BB	5,766	2	29	58	3,325	266
B	187	3	28	65	122	10
Other	942	20	34	147	1,383	111
Default	156	100	39	151	235	19
Total	7,983	6	31	67	5,347	428
Sovereign						
AAA	1,800	-	5	1	10	1
AA	-	-	60	15	-	-
A	512	-	15	7	38	3
BBB	95	-	20	12	12	1
BB	1	2	31	70	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	2,408	-	8	3	60	5
Bank						
AAA	-	-	-	-	-	-
AA	1,190	-	60	15	176	14
A	-	-	-	-	-	-
BBB	-	-	-	-	-	-
BB	-	-	-	-	-	-
B	-	-	-	-	-	-
Other	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	1,190	-	60	15	176	14

	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Equity						
Equity holdings (not deducted from capital) that are publicly traded	40	-	-	300	120	10

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	5,611	4,149	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,581	1,505	-	-
Small business	977	864	-	-
Corporate	626	626	-	-
Business lending	1,113	1,113	-	-
Sovereign	1,991	206	-	-
Bank	1,190	-	-	-
Total	**14,089**	**8,463**	-	-

The Banking Group's Specialised Lending: Project and property finance credit risk exposures as at 31 December 2010 (Unaudited)

Supervisory slotting grade	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Strong	953	70	667	53
Good	1,449	90	1,304	104
Satisfactory	793	115	911	73
Weak	721	250	1,803	144
Default	276	-	-	-
Total	**4,192**	**112**	**4,685**	**374**

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

	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled) $m	Required Regulatory Capital $m
Undrawn commitments and other off-balance sheet amounts	196	111	217	17

The Banking Group's credit risk exposures subject to the standardised approach as at 31 December 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	287	100	287	23
Related parties	1,510	29	437	35
Total on-balance sheet exposures	**1,797**	**40**	**724**	**58**

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
Market related contracts subject to the standardised approach					
Foreign exchange contracts	13,734	447	20	89	7
Interest rate contracts	28,575	128	20	26	2
Total market related contracts subject to the standardised approach	**42,309**	**575**	**20**	**115**	**9**
Standardised subtotal				**839**	**67**
After adjustment for scalar				**889**	**71**

Note 15 Risk management (continued)

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2010 (Unaudited)

LVR range	0-60%	61-70%	71-80%	81-90%	Over 90%
Value of exposures ($m)	**15,518**	**6,643**	**9,488**	**5,139**	**2,959**

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 31 December 2010.

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

	The Banking Group					
	31 December 2010 (Unaudited)			31 December 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 %
End-of-period						
Interest rate risk	**775**	**62**	**1.50**	763	61	1.59
Foreign currency risk	**40**	**3**	**0.07**	46	4	0.10
Equity risk	**40**	**3**	**0.07**	46	4	0.10
Peak end-of-day						
Interest rate risk	**1,388**	**111**	**2.69**	1,350	108	2.81
Foreign currency risk	**45**	**4**	**0.10**	46	4	0.10
Equity risk	**45**	**4**	**0.10**	46	4	0.10

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

	The Banking Group			
	Number of Banks		Number of Non-banks	
Percentage of equity (%)	**As at 31 December 2010 Unaudited**	As at 31 December 2009 Unaudited	**As at 31 December 2010 Unaudited**	As at 31 December 2009 Unaudited
10 - 19	**1**	2	**-**	-
20 - 29	**-**	-	**-**	-
30 - 39	**-**	-	**-**	-
40 - 49	**-**	-	**-**	-
50 - 59	**-**	-	**-**	-
60 - 69	**-**	-	**-**	-
70 - 79	**-**	-	**-**	-
80 - 89	**-**	-	**-**	-
90 - 100	**-**	-	**-**	-

	The Banking Group			
	Total Exposure to Banks ($m)		Total Exposure to Non-banks ($m)	
Percentage of equity (%)	**As at 31 December 2010 Unaudited**	As at 31 December 2009 Unaudited	**As at 31 December 2010 Unaudited**	As at 31 December 2009 Unaudited
10 - 19	**448**	1,037	**-**	-
20 - 29	**-**	-	**-**	-
30 - 39	**-**	-	**-**	-
40 - 49	**-**	-	**-**	-
50 - 59	**-**	-	**-**	-
60 - 69	**-**	-	**-**	-
70 - 79	**-**	-	**-**	-
80 - 89	**-**	-	**-**	-
90 - 100	**-**	-	**-**	-
Total balance date credit exposures	**448**	1,037	**-**	-

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

	The Banking Group			
	Number of Banks		Number of Non-banks	
Percentage of equity (%)	**For the Three Months Ended 31 December 2010 Unaudited**	For the Three Months Ended 31 December 2009 Unaudited	**For the Three Months Ended 31 December 2010 Unaudited**	For the Three Months Ended 31 December 2009 Unaudited
10 - 19	**2**	1	**-**	-
20 - 29	**-**	1	**-**	-
30 - 39	**1**	1	**-**	-
40 - 49	**-**	-	**-**	-
50 - 59	**-**	-	**-**	-
60 - 69	**-**	-	**-**	-
70 - 79	**-**	-	**-**	-
80 - 89	**-**	-	**-**	-
90 - 100	**-**	-	**-**	-

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

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 31 December 2009 and peak end-of-day aggregate for the three months ended 31 December 2009 (disclosed in the Banking Group's General Short Form Disclosure Statements for the three months ended 31 December 2009) incorrectly reported credit exposures to individual bank counterparties as nil. The Banking Group has reviewed and enhanced 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.

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 has 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 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 agreement disclosed in the Bank's most recent Supplemental Disclosure Statement (refer to page 6). 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.

	The Banking Group			
	As at 31 December 2010 Unaudited $m	**Peak End-of-Day for the Three Months Ended 31 December 2010 Unaudited $m**	As at 31 December 2009 Unaudited $m	Peak End-of-Day for the Three Months Ended 31 December 2009 Unaudited $m
Credit exposures to connected persons:				
On gross basis, before netting	**1,268**	**1,876**	1,063	1,344
As a percentage of Tier One Capital of the Banking Group at the end of the period	**37.4%**	**55.4%**	33.6%	42.4%
Netted amount	**88**	**-**	95	-
As a percentage of Tier One Capital of the Banking Group at the end of the period	**2.6%**	**0.0%**	3.0%	0.0%
On partial bilateral net basis	**1,180**	**1,876**	968	1,344
As a percentage of Tier One Capital of the Banking Group at the end of the period	**34.8%**	**55.4%**	30.6%	42.4%
Credit exposures to non-bank connected persons	**-**	**-**	-	-
As a percentage of Tier One Capital of the Banking Group at the end of the period	**0.0%**	**0.0%**	0.0%	0.0%

As at 31 December 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 not been any changes in these limits during the three months ended 31 December 2010.

The limits on aggregate credit exposures 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 31 December 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 31 December 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) (31 December 2009: nil).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 31 December 2010 (31 December 2009: nil).

Westpac New Zealand Limited