Westpac New Zealand Limited
Disclosure Statement

For the year ended 30 September 2011

Index

General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2011 are set out in Note 26 Related entities.

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

General matters

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, Westpac on Takutai Square, 16 Takutai Square, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited ('**WNZGL**'), 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.

WNZGL 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.

WNZGL 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 6 of this Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated through 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). On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank (refer to Note 41.1 Events after the reporting date – transfer of additional banking operations to the Bank for further details). Further information on the NZ Branch is available in Westpac Banking Corporation's most recently published 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 (which will be reduced to A$250,000 per account holder from 1 February 2012);
- 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 '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.

General matters (continued)

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.

Directorate

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

Name: Peter David Wilson, CA
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: No[2]
External Directorships: Chairman of each of Kermadec Property Fund Limited and PF Olsen Group Limited. Deputy Chairman of Meridian Energy Limited. Director of each of Westpac Banking Corporation, Farmlands Trading Society Limited, NZ Farming Systems Uruguay Limited, PF Olsen Limited and The Colonial Motor Company Limited[1]. Member of New Zealand Markets Disciplinary Tribunal and Chairman of the Special Division of that Tribunal.

Name: George Frazis, B.Eng. (Hons.), MBA (AGSM, Wharton)
Non-executive: No
Country of Residence: New Zealand
Primary Occupation: Chief Executive, Westpac New Zealand Limited
Secondary Occupations: Director
Board Audit Committee Member: No
Independent Director: No
External Directorships: Director of each of Westpac New Zealand Group Limited, BT Funds Management (NZ) Limited, BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Life-NZ-Limited, Emery Capital Pty Ltd, Red Group Apparel Pty Ltd, White Cap Investments Pty Ltd and Banking Ombudsman Scheme Limited.

Name: Philip Matthew Coffey, BEc (Hons.)
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Chief Financial Officer, Westpac Banking Corporation
Secondary Occupations: Director
Board Audit Committee Member: Yes
Independent Director: No
External Directorships: Director of MBMC Pty Ltd and MBMC Futures Pty Ltd.

Name: Janice Amelia Dawson B.Com, FCA
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: Consultant to KPMG
Board Audit Committee Member: Yes, Chair
Independent Director: Yes
External Directorships: Deputy Chair of Counties Manukau District Health Board. Director of each of Air New Zealand Limited, Erua Limited and Jan Dawson Limited. Member of each of the Capital Investment Committee of the National Health Board and the Council of the University of Auckland. President of Yachting New Zealand. Chair of the Audit Committee of the International Sailing Federation.

Name: Christopher John David Moller
Non-executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Chairman of each of New Zealand Transport Agency, Meridian Energy Limited and New Zealand Cricket. Director of each of SKYCITY Entertainment Group Limited, Urenui Consultants Limited, Rugby New Zealand 2011 Limited, NZX Limited, International Cricket Council and ICC Development (International) Limited. Trustee of each of New Zealand Cricket Foundation Inc., Victoria University Foundation and Westpac Regional Stadium Trust.

Name: Ralph Graham Waters, C.P.Eng, F.I.E (AUST.), M.Bus.
Non-executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes
External Directorships: Chairman of Fletcher Building Limited. Director of each of Fletcher Building Industries Limited, Argie Pty Limited, Gragill Pty Limited, Fonterra Co-operative Group Limited, Woolworths Limited, Tyree Holdings Pty Ltd and Tyree Australia Pty Ltd.

1 Peter Wilson retired as a director of The Colonial Motor Company Limited on 3 November 2011.
2 While Peter Wilson is an Independent Director of the Ultimate Parent Bank, he is not an Independent Director of the Bank under the conditions of registration imposed on the Bank.

All communications may be sent to the Directors at the head office of the Bank at Westpac on Takutai Square, 16 Takutai Square, Auckland, New Zealand.

General matters (continued)

Changes to Directorate

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

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

Conflicts of interest policy

The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are avoided or dealt with. The Bank's policy is consistent with the conflicts of interest policy of the Ultimate Parent Bank and its subsidiaries ('**Ultimate Parent Bank Group**').

Accordingly, each Director must:

(i) give notice to the Board of any direct or indirect interest in any contract or proposed contract with the Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Alternatively, a Director may give to the Board a general notice to the effect that the Director is to be regarded as interested in any present or prospective contract between the Bank and a person or persons specified in that notice; and

(ii) in relation to any matter that is to be considered at a Directors' meeting in which that Director has a material personal interest, not vote on the matter nor be present while the matter is being considered at the meeting (unless the remaining Directors have previously resolved to the contrary).

Interested transactions

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

(a) on terms other than on those which would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Credit ratings

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

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

On 9 November 2011, Standard & Poor's released its new global bank rating criteria and Banking Industry Country Risk Assessments ('**BICRA**') methodology. Also on 9 November 2011, Standard & Poor's announced the BICRA score for New Zealand of three, down from a score of two under the previous methodology. On 1 December 2011, as a result of the Standard & Poor's bank rating criteria changes, the Bank's credit rating was lowered from AA to AA- with a 'stable' outlook.

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

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 any of the Bank's credit ratings or rating outlooks in the two years prior to 30 September 2011.

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.

Credit ratings (continued)

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 Disclosure Statement.

Government guarantees

As at the beginning of the year ended 30 September 2011, 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 on 11 October 2010. Therefore, as at the date the Directors signed this Disclosure Statement, no obligations of the Bank are guaranteed by the Crown under the Deposit Guarantee or the Revised Deposit Guarantee.

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued. 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. Further information about the Wholesale Guarantee, and the expired Deposit Guarantee and Revised Deposit Guarantee, is available from the Treasury internet site www.treasury.govt.nz.

Wholesale Guarantee

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

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

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

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

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

The most recent audited financial statements of the Crown can also be obtained from the Treasury internet site www.treasury.govt.nz.

The Crown has the following credit ratings in respect of its long-term obligations payable in New Zealand dollars as at the date the Directors signed this Disclosure Statement.

Guarantee arrangements (continued)

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

On 29 September 2011 and 30 September 2011 respectively, the Crown's credit ratings issued by Fitch Ratings and Standard & Poor's were each downgraded from AAA to AA+ with a 'stable' outlook.

There have been no other changes to any of the Crown's domestic currency credit ratings or rating outlooks in the two years prior to 30 September 2011.

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.

For an explanation of the credit rating scales see the table under the sub-heading "Descriptions of credit rating scales" on page 4 of this Disclosure Statement.

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 ('**WSNZL**'), 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.

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 of the Wholesale Guarantee

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

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

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

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

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

Pending proceedings or arbitration

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

The contingent liabilities of the Banking Group and the Bank are set out in Note 29 Commitments and contingent liabilities.

Conditions of registration

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

1. That the Banking Group complies with the following requirements:

   (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand ('**Reserve Bank**') document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 8%;

   (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 4%; and

   (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than $30 million.

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

1A. That:

   (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')' (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and Total Capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011; and

   (c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.

1B. That the Banking Group complies with all requirements set out in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of 'material' is based on generally accepted accounting practice.

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

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business:

   In determining the total amount of the Banking Group's insurance business:

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,

   'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance:

   'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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

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

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

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

Conditions of registration (continued)

5A. Before and on 31 March 2012, that the Bank complies with the following corporate governance requirements:

(a) the Board of the Bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank or any other entity capable of controlling or significantly influencing the Bank;

(b) the chairperson of the Bank's Board must not be an employee of the Bank; and

(c) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

6. On and after 1 April 2012, that the Bank complies with the following corporate governance requirements:

(a) the Board of the Bank must have at least five directors;

(b) the majority of the Board members must be non-executive directors;

(c) at least half of the Board members must be independent directors;

(d) an alternate director:

(i) for a non-executive director must be non-executive; and

(ii) for an independent director must be independent;

(e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

(f) the chairperson of the Board of the Bank must be independent; and

(g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:

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

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

8. On and after 1 April 2012, that a person must not be appointed as chairperson of the Board of the Bank unless:

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

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

9. On and after 1 April 2012, that the Bank has a Board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

(a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

(b) the committee must have at least three members;

(c) every member of the committee must be a non-executive director of the Bank;

(d) the majority of the members of the committee must be independent; and

(e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

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

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

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

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

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

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

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

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

12. That:

(a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;

(b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and

(c) all staff employed by the Bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and are accountable (directly or indirectly) to the CEO of the Bank.

13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.

Conditions of registration (continued)

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

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2011 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated March 2010.
15. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.
16. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition:

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

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

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

In these conditions of registration:

- 'Banking Group' means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993; and
- 'generally accepted accounting practice' has the same meaning as in section 2 of the Financial Reporting Act 1993.

The Bank's conditions of registration were changed on 22 September 2011, with effect from 30 September 2011. These changes reflect:

- a clarification of what constitutes the Banking Group's insurance business and how to determine the total amount of the Banking Group's insurance business; and
- the removal of previous condition 13A in relation to the Banking Group's quantitative requirements for liquidity-risk management, which only applied until 1 July 2011.

These changes are reflected in the conditions of registration set out above.

Further changes (not reflected above) have been made to the Bank's conditions of registration since 30 September 2011:

- On 28 October 2011 the Bank's conditions of registration were changed to include a new condition 14A which varies the way the Bank is required to calculate the ratios referred to in condition 14. Condition 14 was changed to make it subject to condition 14A. These changes were effective from 1 November 2011; and
- On 21 November 2011 the Bank's conditions of registration were changed to reflect changes made by the Reserve Bank to BS13A *Liquidity Policy Annex: Liquid Assets* so that reference in the conditions of registration to "Liquidity Policy Annex: Liquid Assets (BS13A) dated March 2010" were replaced with references to "Liquidity Policy Annex: Liquid Assets (BS13A) dated November 2011." BS13A was amended to ensure that domestic currency New Zealand government securities will always qualify as primary liquid assets. These changes were effective from 25 November 2011.

Other material matters

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

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Review of operations

Disclosure regarding forward-looking statements

This Disclosure Statement contains statements that constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements appear in a number of places in this Disclosure Statement and include statements regarding the intent, belief or current expectations with respect to the business and operations, market conditions and results of operations and financial condition of the Banking Group. Words such as “will”, “may”, “expect”, “intend”, “plan”, “seek”, “would”, “should”, “could”, “continue”, “estimate”, “anticipate”, “believe”, “probability”, “risk”, or other similar words identify forward-looking statements. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Factors that could cause results to differ from those reflected in forward-looking statements relating to the Banking Group’s operations and business include, but are not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts the Banking Group or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes to the credit ratings of the Bank or the Ultimate Parent Bank;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in New Zealand and in other countries in which the Banking Group or its customers or counterparties conduct their operations and the Banking Group’s ability to maintain or to increase market share and control expenses;
- the effects of competition in the geographic and business areas in which the Banking Group conducts its operations;
- reliability and security of the Banking Group’s technology and risks associated with changes to technology systems;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of the Banking Group’s risk management policies, including its internal processes, systems and employees;
- the occurrence of environmental change or external events in countries in which the Banking Group or its customers or counterparties conduct their operations;
- internal and external events which may adversely impact the Banking Group’s reputation;
- changes in political, social or economic conditions in any of the major markets in which the Banking Group or its customers or counterparties operate; and
- various other factors beyond the Banking Group’s control.

This Disclosure Statement should be read completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Disclosure Statement are qualified by these cautionary statements.

Overview

The Bank is one of New Zealand’s largest banking organisations and provides a wide range of consumer and business banking products and services to consumers, small to medium sized businesses and the New Zealand Government.

Until 1 November 2006, the Ultimate Parent Bank operated in New Zealand through its NZ Branch. The Bank was incorporated on 14 February 2006 as a limited liability company under the Companies Act 1993 of New Zealand. The Banking Group has conducted the consumer and business banking operations formerly conducted by the NZ Branch since 1 November 2006 (refer to page 1 for further details). Accordingly, the Bank’s financial statements for the financial year ended 30 September 2007 include only 11 months of operations. As a result, the results of operations for the financial year ended 30 September 2007 (‘**2007**’) are not directly comparable to the results of operations for the financial years ended 30 September 2011, 2010, 2009 and 2008 (respectively ‘**2011**’, ‘**2010**’, ’**2009**’ and ‘**2008**’).

On 1 November 2011, the NZ Branch transferred additional banking operations to the Bank pursuant to the Westpac New Zealand Act 2011. These activities included:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade finance activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

The results for the businesses transferred to the Bank on 1 November 2011 are not included in the financial statements for the financial year ended 30 September 2011.

The acquisition involved the transfer to the Bank of approximately $6.4 billion of assets consisting primarily of loans to corporate customers ($6.3 billion) and approximately $5.3 billion of liabilities consisting primarily of deposits ($5.1 billion).

For the financial year ended 30 September 2011, the NZ Branch incurred no write-offs (30 September 2010: nil) and impairment charges of $1 million (30 September 2010: reversals of $2 million) with respect to the transferred loan portfolio.

For the financial year ended 30 September 2011, the business activities transferred from the NZ Branch to the Bank accounted for net operating income of approximately $166 million (30 September 2010: $163 million) and profit after income tax expense of approximately $114 million (30 September 2010: $103 million).

Approximately 85 full time equivalent employees were transferred from the NZ Branch to the Bank.

Review of operations (continued)

As a result of the acquisition of these operations, the Bank will incur costs not reflected in the results of these operations described above. These additional costs include, among other things, expenses associated with complying with the liquidity and capital requirements imposed on it in connection with operating these business activities, as well as the additional interest expense relating to the borrowings to fund the acquisition. Accordingly, the Bank estimates that, if the Bank had acquired these businesses on 1 October 2010, the increase in its profit after income tax expense would have been significantly less than $114 million. The Bank will continue to incur these additional costs in future years.

To fund the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch (as well as additional liquid assets required to be held by the Banking Group as a result of the transfer), a loan of $3.1 billion was provided to the Bank by the NZ Branch and the Bank raised $1,130 million in additional share capital.

The loan is for a period of 3 years and has been priced at New Zealand Bank Bill Reference Rate ('**BKBM**') plus a margin that reflected market pricing on 1 November 2011.

The Bank issued a total of 1,130 million additional ordinary shares for $1 per share to the Bank's immediate parent company, WNZGL, largely in connection with the transfer. On 28 October 2011, the Bank issued 900 million ordinary shares for $1 per share, and on 31 October 2011, the Bank issued an additional 230 million ordinary shares for $1 per share. Immediately prior to the issuance of these additional 230 million ordinary shares, the Bank paid a dividend to WNZGL of $230 million. These transactions were in accordance with the Banking Group's capital management policy.

Refer to Note 41.1 Events after the reporting date – transfer of additional banking operations to the Bank for further information regarding the transfer.

Presentation of financial information

The financial statements included within this Disclosure Statement have been prepared in accordance with the accounting policies described in Note 1 to the financial statements, which are in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), New Zealand Equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Review Board, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards ('**IFRS**') as issued by the International Accounting Standards Board.

In addition, the financial statements include supplementary information required by the Order.

The financial statements included within this Disclosure Statement are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated. Except as otherwise expressly indicated, average balance sheet amounts for the financial years ended 30 September 2011, 2010 and 2009 are based on daily averages and for the financial year ended 30 September 2008 are based on month-end averages.

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

Currency of presentation, exchange rates and certain definitions

Items included within the financial statements are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The financial statements are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

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

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

Critical accounting estimates, judgments and assumptions

The application of the Bank's accounting policies necessarily requires the use of estimates, judgments and assumptions. Should different estimates, judgments or assumptions be applied, the resulting values would change, impacting the net assets and income of the Banking Group. The Bank's Board Audit Committee ('**NZBAC**') reviews the accounting policies which are sensitive to the use of estimates, judgments and assumptions as part of its review of the integrity of the financial statements and Disclosure Statements.

The estimates and assumptions used and the value of the resulting asset and liability balances in the financial statements are described in Note 1 to the financial statements. The judgments, apart from those involving estimations, that management has made in applying the accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as described in Note 1 to the financial statements.

Selected consolidated financial and operating data

The following selected financial information as at and for the financial years ended 30 September 2011, 2010, 2009, 2008 and 2007 is derived from the financial statements. This information should be read together with the financial statements.

Review of operations (continued)

Historical summary of financial statements[1]

	The Banking Group				
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m	Year Ended 30 September 2008 $m	Year Ended 30 September 2007[2] $m
Income statement					
Interest income	**3,600**	3,501	3,988	4,327	3,337
Interest expense	**(2,284)**	(2,337)	(2,672)	(3,052)	(2,297)
Net interest income	**1,316**	1,164	1,316	1,275	1,040
Non-interest income	**308**	291	363	380	330
Net operating income	**1,624**	1,455	1,679	1,655	1,370
Operating expenses	**(771)**	(704)	(708)	(709)	(605)
Impairment charges on loans	**(224)**	(334)	(620)	(170)	(85)
Operating profit	**629**	417	351	776	680
Share of profit of associate accounted for using equity method	**1**	1	-	48	-
Profit before income tax expense	**630**	418	351	824	680
Income tax expense	**(197)**	(132)	(103)	(262)	(231)
Profit after income tax expense	**433**	286	248	562	449
Profit after income tax expense attributable to:					
Owners of the Banking Group	**429**	283	245	559	446
Non-controlling interests	**4**	3	3	3	3
	433	286	248	562	449
Dividends paid or provided	**(2)**	(4)	(328)	(335)	(217)
Balance sheet					
Total assets	**60,656**	55,179	54,509	52,295	47,011
Total impaired assets (including restructured assets)	**794**	742	671	278	118
Total liabilities	**56,160**	51,131	50,745	47,380	44,317
Total equity	**4,496**	4,048	3,764	4,915	2,694

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

2 The financial results for 2007 include the trading result of the Bank as a registered bank only for the 11 month period ended 30 September 2007.

Overview of performance – 2011 vs 2010

Profit after income tax expense attributable to owners of the Banking Group increased $146 million or 51.6% to $429 million for 2011, compared to $283 million for 2010. This increase resulted primarily from an increase in net interest income of $152 million and a continued decline in impairment charges on loans, which decreased $110 million, partially offset by an increase of operating expenses.

The Banking Group's financial performance for the year ended 30 September 2011 reflected substantial continued investment in sales and service capability resulting in market share gains. This, together with good margin management, led to an increase in net interest income. The Banking Group's net interest income improvement has been driven by the attraction of new customers as market share has grown in line with or ahead of the Reserve Bank system growth[3].

The New Zealand economy continued to recover, as labour markets showed positive signs and households appeared confident to spend while at the same time saving and/or limiting their borrowing. Improvements in housing delinquencies and a reduction in business stressed loans resulted in a decrease in impairment charges on loans from that recorded for 2010.

Net interest income increased $152 million or 13.1% to $1,316 million for 2011, compared to $1,164 million for 2010. This increase reflected an increase in interest income of $99 million and a reduction in interest expense of $53 million. The increase in interest income was due to a $62 million increase in interest income received on trading securities and a $7 million increase in interest income earned on loans. Interest income was also up during 2011 compared to 2010 as the Banking Group purchased government bonds throughout the course of the financial year and generated $26 million of income on these available-for-sale securities. The decrease in interest expense was due to a reduction in the amount of interest paid to related entities of $135 million and a $19 million reduction in interest expense on certificates of deposits as the Banking Group reduced reliance on this source of funding. This reduction was partially offset as interest expense paid on deposits at amortised cost (customer deposits) increased $110 million.

Operating expenses increased $67 million or 9.5% to $771 million for 2011, compared to $704 million for 2010. Salaries and other staff expenses increased $38 million or 10.7% driven primarily by an increased investment in frontline sales and service capabilities.

Impairment charges on loans decreased $110 million or 32.9% to $224 million for 2011, compared to $334 million for 2010. This improvement was driven by a $134 million improvement in the collectively assessed provision, partially offset by an increase in write-offs of $3 million. In addition, impairment charges in 2010 on the individually assessed provision benefitted from a reduced charge, which was $12 million greater in 2011.

Dividends paid in the year ended 30 September 2011 of $2 million represent amounts paid to non-controlling interests. No additional dividends were declared in the year ended 30 September 2011 consistent with the Bank's risk appetite statement and ahead of the transfer of additional banking operations from the NZ Branch to the Bank on 1 November 2011. For further details on capital re-structures and dividend payments as part of the transfer of additional banking operations to the Bank on 1 November 2011, refer to Note 41.1 Events after the reporting date – transfer of additional banking operations to the Bank. Dividends paid in the year ended 30 September 2010 of $4 million represented amounts payable to non-controlling interests.

Total assets as at 30 September 2011 increased $5.5 billion or 9.9% to $60.7 billion from $55.2 billion as at 30 September 2010, primarily due to increases in available-for-sale securities and loans of $1.5 billion and $1.2 billion, respectively and to a lesser extent cash and balances with central banks, due from other financial institutions and trading securities.

Total liabilities increased $5.0 billion or 9.8% to $56.2 billion as at 30 September 2011 from $51.1 billion as at 30 September 2010, primarily due to increases in deposits and debt issues of $2.4 billion and $2.2 billion, respectively. These increases funded both loan and liquid asset growth in 2011.

3 Reserve Bank, as at 30 September 2011

Review of operations (continued)

Income statement review – 2011 vs 2010

Net interest income

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Interest income	**3,600**	3,501
Interest expense	**(2,284)**	(2,337)
Net interest income	**1,316**	1,164
Increase/(decrease) in net interest income:		
Due to change in volume	**154**	333
Due to change in rate	**(2)**	(485)
Change in net interest income	**152**	(152)

Net interest income increased $152 million or 13.1% to $1,316 million for 2011, compared to $1,164 million for 2010. This increase reflected an increase in interest income of $99 million and a reduction in interest expense of $53 million.

The increase in interest income was due to a $62 million increase in interest income received on trading securities and a $7 million increase in interest income earned on loans. Interest income was also up during 2011 compared to 2010 as the Banking Group purchased government bonds throughout the course of the financial year and generated $26 million of income on these available-for-sale securities. The increase in interest income on loans was due to increased lending volumes as the average balance of net loans grew by $1.1 billion or 2.2% compared to 2010. This growth in net loans resulted in an increase of total lending market share of 30 basis points, as loans increased 2.4% compared to system growth of 0.6%[1] during the financial year. Loans in Consumer Banking as at 30 September 2011 increased 2.7% compared to 30 September 2010, against total system growth of 1.1%[1], primarily due to an increase in home lending. Business Banking loan levels showed signs of improvement as at 2011 compared to 2010, increasing by 2.0%.

The decrease in interest expense was due to a reduction in the amount of interest paid to related entities of $135 million and a $19 million reduction in interest expense on certificates of deposits as the Banking Group reduced reliance on this source of funding. This reduction was partially offset as interest expense paid on deposits at amortised cost (customer deposits) increased $110 million. This increase in interest expense on deposits from customers was primarily due to growth in deposit balances, as rates paid on at call and term deposits only marginally improved during the financial year. Customer deposits as at 2011 increased 9.2% compared to 2010 across both Consumer and Business Banking against total system growth of 7.8%[1]. Term deposits with a short term continued to be the preferred deposit product in the low interest rate environment making up 57.6% of customer deposits.

Net interest income for the year ended 30 September 2010 was also adversely impacted by the additional cost associated with the Bank's participation in the Deposit Guarantee and Revised Deposit Guarantee.

Interest spread and margin

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Net interest income	**1,316**	1,164
Average interest earning assets	**54,698**	53,704
Average interest bearing liabilities	**48,419**	48,229
Average net non-interest bearing liabilities and equity	**6,279**	5,475
Interest spread[1] (%)	**1.86**	1.67
Benefit of net non-interest bearing liabilities and equity[2] (%)	**0.55**	0.50
Net interest margin[3] (%)	**2.41**	2.17

1 Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.

2 The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds (i.e. average non-interest bearing liabilities plus average equity less average non-interest earning assets) as a percentage of average interest earning assets.

3 Net interest margin is calculated by dividing net interest income by average interest earning assets.

Net interest margin increased 24 basis points to 2.41% for 2011 compared to 2.17% for 2010. Net interest margin improved as existing customers refinanced loans upon expiry of fixed terms, which repriced to new mortgage products with a wider spread in both business and housing lending. The low interest rate environment resulted in a sustained shift in consumer preference from fixed to variable housing loans, at higher margins. Net interest margin in the year ended 2010 was also adversely impacted by the additional cost associated with the Bank's participation in the Deposit Guarantee and Revised Deposit Guarantee.

1 Reserve Bank, as at 30 September 2011

Review of operations (continued)

Non-interest income

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Fees and commissions	**299**	287
Gains on ineffective hedges	**1**	3
Other non-interest income	**8**	1
Total non-interest income	**308**	291

Non-interest income increased $17 million or 5.8% to $308 million for 2011, compared to $291 million for 2010. This increase was primarily due to an increase in fee income due to higher transactional volumes and a one-off gain in other non-interest income on the retirement of damaged property, plant and equipment.

Operating expenses

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Salaries and other staff expenses	**392**	354
Equipment and occupancy expenses	**97**	95
Other expenses	**282**	255
Total operating expenses	**771**	704

Operating expenses increased $67 million or 9.5% to $771 million for 2011, compared to $704 million for 2010. Salaries and other staff expenses increased $38 million or 10.7% driven primarily by an increased investment in frontline sales and service capabilities. This investment is part of the Bank's focus on delivering service excellence to customers in their local community, which also included the opening of six new branches during the 2011 financial year in addition to the eight opened in the 2010 financial year. Other expenses, which include outsourcing, consultancy and professional fees, software amortisation costs, advertising, training, travel and related entity management fees, increased $27 million or 10.6%, which was caused primarily by an increase in consultancy fees and other professional services charges. Salary inflation, additional lease costs for the new branches and a move to the new head office building, in addition to restructuring costs to support productivity initiatives, also contributed to this increase in total operating expenses compared to the 2010 financial year.

Impairment charges

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Impairment charges on loans	**224**	334
Impairment charges to average gross loans (%)	**0.44**	0.67

Impairment charges on loans decreased $110 million or 32.9% to $224 million for 2011, compared to $334 million for 2010. This improvement was driven by a $134 million improvement in the collectively assessed provision, partially offset by an increase in write-offs of $3 million. In addition, impairment charges in 2010 on the individually assessed provision benefitted from a reduced charge, which was $12 million greater in 2011. The improvement in the collectively assessed provision is primarily due to continued investment in the credit decision process, continued recovery in the New Zealand economy and the continued improvement in the Bank's loan book compared to the year ended 2010. Business stressed loans also improved. The increase in the individually assessed provision was primarily attributable to loans within the commercial property sector, which became further stressed and moved from the collectively assessed provision to being individually assessed.

The impairment charges on loans to average gross loans ratio decreased 0.23% to 0.44% as at 30 September 2011, compared to 0.67% as at 30 September 2010. This decrease was due to both the $110 million reduction in impairment charges on loans and the 2.3% growth in average gross loans.

Income tax expense

	The Banking Group	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m
Income tax expense	**197**	132
Income tax expense as a percentage of profit before income tax expense (%)	**31.3%**	31.6%

Income tax expense increased $65 million or 49.2% to $197 million for 2011, compared with $132 million for 2010. This increase was primarily driven by an increase in taxable income. The effective tax rate for the year ended 2011 was 31.3%, which was slightly lower than the effective tax rate for the year ended 2010 of 31.6% and higher than the New Zealand corporate tax rate of 30%. This was primarily the result of the New Zealand Government enacting a reduction in the corporate tax rate from 30% to 28% in May 2010 which applied to the Banking Group with effect from 1 October 2011. Accordingly, deferred tax balances have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse after 1 October 2011. The impact of this remeasurement in the year ended 30 September 2011 is an additional deferred tax expense of $9 million which primarily relates to provisions for impairment charges on loans.

Review of operations (continued)

Overview of performance – 2010 vs 2009

Profit after income tax expense attributable to owners of the Banking Group increased $38 million or 15.5% to $283 million for 2010, compared to $245 million for 2009. This increase primarily resulted from the decline in impairment charges on loans.

The Banking Group's financial performance for 2010 reflected the slowly improving economic conditions in New Zealand. Following a prolonged period of recession in New Zealand, the 2010 year reflected a period of fragile recovery, which caused the levels of housing delinquencies and business lending stressed assets to stabilise, and resulted in a substantial decline in impairment charges on loans from 2009.

Income statement review – 2010 vs 2009

Net interest income

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Interest income	**3,501**	3,988
Interest expense	**(2,337)**	(2,672)
Net interest income	**1,164**	1,316
(Decrease)/increase in net interest income:		
Due to change in volume	**333**	128
Due to change in rate	**(485)**	(87)
Change in net interest income	**(152)**	41

Net interest income decreased $152 million or 11.6% to $1,164 million for 2010, compared to $1,316 million for 2009. This decrease was primarily due to a reduction in interest income earned on loans of $450 million, partially offset by a $303 million reduction in interest paid on deposits. The $450 million reduction in interest income on loans comprised a $574 million reduction due to a fall in average interest rates on loans as the average Official Cash Rate ('**OCR**') fell during 2010 compared with 2009 and due to a time lag between incurring increased funding costs and the repricing of Consumer and Business Banking loans for which the interest rate is fixed for a period of time. This was offset by an extra $124 million of interest income resulting from increased lending volumes. The decline in interest expense on deposits was primarily due to a reduction in interest paid on certificates of deposit, as a result of lower certificate of deposit issuance following the commencement of the Reserve Bank's new BS13 liquidity requirements on 1 April 2010. Despite increased competition for customer deposits in New Zealand, total interest paid on at call and term deposits was lower during 2010, in line with a lower average OCR during the year.
Net interest income in both 2010 and 2009 was also impacted by the additional cost associated with the Bank's participation in the Deposit Guarantee and Revised Deposit Guarantee.

Interest spread and margin

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Net interest income	**1,164**	1,316
Average interest earning assets	**53,704**	51,979
Average interest bearing liabilities	**48,229**	46,284
Average net non-interest bearing liabilities and equity	**5,475**	5,695
Interest spread[1] (%)	**1.67**	1.90
Benefit of net non-interest bearing liabilities and equity[2] (%)	**0.50**	0.63
Net interest margin[3] (%)	**2.17**	2.53

1 Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.
2 The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds (i.e. average non-interest bearing liabilities plus average equity less average non-interest earning assets) as a percentage of average interest earning assets.
3 Net interest margin is calculated by dividing net interest income by average interest earning assets.

Net interest margin decreased 36 basis points to 2.17% for 2010 compared to 2.53% for 2009. This decrease was primarily due to increased wholesale funding costs as a result of the global financial crisis and an increase in the weighted average tenor of wholesale funding during 2010, lower spreads on domestic deposits within both Consumer and Business Banking due to increased competition in New Zealand, a time lag between incurring increased funding costs and the repricing of Consumer and Business Banking loans for which the interest rate is fixed for a period of time, and a continued decline in market volatility throughout 2010 which reduced realised treasury income.

Review of operations (continued)

Non-interest income

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Fees and commissions	**287**	346
Gains on ineffective hedges	**3**	1
Other non-interest income	**1**	16
Total non-interest income	**291**	363

Non-interest income decreased $72 million or 19.8% to $291 million for 2010, compared to $363 million for 2009. This decrease was primarily due to the decision to reduce customer exception fees across both Consumer and Business Banking as part of the Bank's customer focused strategy. These fees are charged when a customer has insufficient funds available to make a payment, when an account is overdrawn without an overdraft facility in place, or, in the case of credit card accounts, when a due payment is late or an account breaches its agreed limit.

Operating expenses

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Salaries and other staff expenses	**354**	345
Equipment and occupancy expenses	**95**	97
Other expenses	**255**	266
Total operating expenses	**704**	708

Operating expenses decreased $4 million or 0.6% to $704 million for 2010, compared to $708 million for 2009. Operating expenses decreased due to a reduction in other expenses (which include outsourcing, consultancy and professional fees, software amortisation costs, advertising, training, travel and related entity management fees) of $11 million or 4.1%, as expense management and efficiency initiatives resulted in lower outsourcing, consultancy and management fee expenses compared to 2009, which were partially offset by $4 million in expenses associated with the September 2010 Canterbury earthquake. This reduction in other expenses was partially offset by increased salaries and other staff expenses of $9 million or 2.6% driven primarily by an increased number of frontline bankers across both Consumer and Business Banking.

Impairment charges

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Impairment charges on loans	**334**	620
Impairment charges to average gross loans (%)	**0.67**	1.29

Impairment charges on loans decreased $286 million or 46.1% to $334 million for 2010, compared to $620 million for 2009. This decrease was primarily due to the absence of significant write-offs within the Business Banking division associated with large single name exposures, which had occurred in the prior year, and saw a $155 million reduction in individually-assessed provisions within Business Banking. Business Banking also had a $167 million reduction in charges relating to the collectively assessed provision as economic conditions began to stabilise. However within Consumer Banking, a conservative adjustment to the factor charge, flow on effects of the prolonged recession and the 5% growth in average loans in 2010 resulted in an additional $71 million of collectively assessed provisions across the mortgage and other consumer loan portfolios, despite delinquencies in these portfolios either stabilising or improving.

The impairment charges to average gross loans ratio decreased 0.62% to 0.67% over 2010, compared to 1.29% in 2009. This decrease was due to both the $286 million reduction in impairment charges on loans and the 3.2% growth in average gross loans across the Consumer and Business Banking portfolios.

Income tax expense

	The Banking Group	
	Year Ended 30 September 2010 $m	Year Ended 30 September 2009 $m
Income tax expense	**132**	103
Income tax expense as a percentage of profit before income tax expense (%)	**31.6**	29.3

Income tax expense increased $29 million or 28.2% to $132 million for 2010, compared with $103 million for 2009. This increase was primarily driven by an increase in taxable income. The effective tax rate for 2010 was 31.6%, which was higher than the New Zealand corporate tax rate of 30% and higher than the effective tax rate for 2009 of 29.3%. This was primarily the result of the New Zealand Government enacting a reduction in the corporate tax rate from 30% to 28% in May 2010 which will apply to the Banking Group from 1 October 2011. Accordingly, deferred tax balances have been remeasured at 28% to the extent the underlying temporary differences are expected to reverse after 1 October 2011. The impact of this remeasurement is an additional deferred tax expense of $6 million which primarily relates to provisions for impairment charges on loans.

Review of operations (continued)

Distribution of assets, liabilities and equity: interest rates and interest differential

Except as otherwise expressly indicated, average balance sheet amounts presented in the following tables for the financial years ended 30 September 2011, 2010 and 2009 are based on daily averages and for the financial year ended 30 September 2008 are based on month-end averages.

Volume and rate movement

The following table allocates changes in net interest income between changes in volume and changes in interest rate for 2011, 2010 and 2009 for each major category of interest earning asset and interest bearing liability. Volume and rate variances have been calculated based on the movement in average balances and the changes in the interest rates on average interest earning assets and average interest bearing liabilities. The variances caused by changes in both volume and rate have been allocated in proportion to the relationship of the absolute dollar amount of each change to the total.

The Banking Group
For the Year Ended 30 September

	2011			2010			2009		
	Change Due to Volume $m	**Change Due to Rate $m**	**Total $m**	Change Due to Volume $m	Change Due to Rate $m	Total $m	Change Due to Volume $m	Change Due to Rate $m	Total $m
Interest earning assets									
Cash and balances with central banks	**15**	**(11)**	**4**	(7)	1	(6)	-	13	13
Trading securities	**(25)**	**87**	**62**	13	(44)	(31)	204	(196)	8
Loans (including impaired loans)	**76**	**(69)**	**7**	124	(574)	(450)	261	(621)	(360)
Available-for-sale securities	**26**	**-**	**26**	-	-	-	-	-	-
Total change in interest income	**92**	**7**	**99**	130	(617)	(487)	465	(804)	(339)
Interest bearing liabilities									
Deposits[1]	**39**	**52**	**91**	(24)	(279)	(303)	113	(881)	(768)
Trading liabilities	**(19)**	**-**	**(19)**	(64)	-	(64)	83	-	83
Debt issues	**(8)**	**19**	**11**	140	(118)	22	5	(203)	(198)
Net due to related entities (including perpetual subordinated notes)	**(74)**	**(61)**	**(135)**	(255)	265	10	132	367	499
Other	**-**	**(1)**	**(1)**	-	-	-	4	-	4
Total change in interest expense	**(62)**	**9**	**(53)**	(203)	(132)	(335)	337	(717)	(380)
Total change in net interest income[2]	**154**	**(2)**	**152**	333	(485)	(152)	128	(87)	41

1 Deposits includes deposits at fair value (including certificates of deposit) and deposits at amortised cost.

2 Total change in net interest income has been calculated as the total change in interest income minus the total change in interest expense.

Review of operations (continued)

Average balance sheets and analysis of net interest earnings

The following table shows the major categories of interest earning assets and interest bearing liabilities, and the respective interest rates that were earned or paid as at and for the financial years ended 30 September 2011, 2010 and 2009. The interest rates were calculated by dividing the amount of interest received or paid on the average interest earning assets and interest bearing liabilities, respectively. Interest income figures include interest income on non-accrual loans to the extent cash payments in the nature of interest have been received. Non-accrual loans are included under the interest earning asset category "Loans".

	The Banking Group For the Year Ended 30 September								
	2011			2010			2009		
	Average Balance $m	**Interest Income/ Expense $m**	**Average Rate[1] %**	Average Balance $m	Interest Income/ Expense $m	Average Rate[1] %	Average Balance $m	Interest Income/ Expense $m	Average Rate[1] %
Assets									
Interest earning assets									
Cash and balances with central banks	**379**	**11**	**2.90**	119	7	5.88	279	13	4.66
Trading securities[2]	**3,392**	**179**	**5.28**	4,306	117	2.72	3,965	148	3.73
Loans (including impaired loans)	**50,387**	**3,384**	**6.72**	49,279	3,377	6.85	47,735	3,827	8.02
Available-for-sale securities	**540**	**26**	**4.81**	-	-	-	-	-	-
Total interest earning assets and interest income	**54,698**	**3,600**	**6.58**	53,704	3,501	6.52	51,979	3,988	7.67
Non-interest earning assets	**1,523**			1,466			1,318		
Total assets	**56,221**			55,170			53,297		
Liabilities									
Interest bearing liabilities									
Deposits	**31,510**	**1,227**	**3.89**	30,458	1,136	3.73	30,973	1,439	4.65
Trading liabilities	**2**	**-**	**-**	403	19	4.71	1,734	83	4.79
Debt issues	**15,657**	**395**	**2.52**	15,990	384	2.40	11,534	362	3.14
Due to related entities (including perpetual subordinated notes)[2]	**1,250**	**659**	**N/A**	1,378	794	N/A	2,043	784	N/A
Other	**-**	**3**	**-**	-	4	-	-	4	-
Total interest bearing liabilities and interest expense	**48,419**	**2,284**	**4.72**	48,229	2,337	4.85	46,284	2,672	5.77
Non-interest bearing liabilities	**3,419**			2,922			2,763		
Total liabilities	**51,838**			51,151			49,047		
Net assets / net interest income / net yield	**4,383**	**1,316**	**1.86**	4,019	1,164	1.67	4,250	1,316	1.90
Total equity	**4,383**			4,019			4,250		

1 Calculated as interest income/expense divided by the corresponding average balance.
2 Includes net impact of Treasury balance sheet management activities.

2011 vs 2010

Average interest earning assets increased $994 million or 1.9% in 2011 compared to 2010, primarily due to growth in average loans of $1,108 million in 2011. The second half of 2011 also saw the introduction of a new interest bearing asset class of available-for-sale-securities where government bonds are being held to generate income from surplus funding, contributing $540 million to the increase in average interest earning assets. The increase in the average balances of loans and available-for-sale securities has been partially offset by a decrease in the average balance of trading securities of $914 million. Home lending within Consumer Banking grew throughout 2011 at an annual rate of 2.7%, more than twice system growth of 1.1%[3]. Business Banking lending grew 2.0% compared to 2010. The Business Banking lending growth included growth of 4.5% in lending to the agricultural sector compared to a total system decrease of 0.8%[3].

Average interest bearing liabilities increased $190 million or 0.4% in 2011 compared to 2010. Average deposits increased by $1,052 million or 3.5% compared to 2010, as the average balance of customer deposits increased $1,804 million offset by a reduction in certificates of deposits of $752 million. The average balance of customer deposits increased as the Bank's investment in frontline sales and service capabilities grew market share over and above system growth[3]. The increase in deposits was partially offset by a decrease in the average balance of trading liabilities and debt issues of $401 million and $333 million respectively, as the Banking Group decreased its holdings of short-term commercial paper throughout the year. The increase in average customer deposits more than offset the funding gap created by the lower certificates of deposit issuance, as a result of the Reserve Bank's new BS13 liquidity requirements, and trading liabilities, following the expiry of the repurchase agreements entered into with the Reserve Bank to meet liquidity requirements during the global financial crisis.

2010 vs 2009

Average interest earning assets increased $1,725 million or 3.3% in 2010 compared to 2009, primarily due to growth in average loans of $1,544 million in 2010, of which $1,435 million was in the housing portfolio. Home lending within Consumer Banking grew throughout 2010 at an annual rate of 5.6%, more than twice system growth of 2.5%[3]. Business Banking lending grew by 2.8%. The Business Banking lending growth included growth of 7.0% in lending to the agricultural sector compared to total system growth of 1.8%[3].

Average interest bearing liabilities increased $1,945 million or 4.2% in 2010 compared to 2009. This was primarily due to an increase in average debt issues of $4,456 million or 38.6% compared to 2009 which was partially offset by decreases in average deposits of $515 million (due to the decline in certificates of deposit issuances), average due to related entities balances of $665 million and average trading liabilities balances of $1,331 million. The increase in average debt issues more than offset the funding gap created by the lower certificates of deposit issuance, as a result of the Reserve Bank's new BS13 liquidity requirements, and trading liabilities, following the expiry of the repurchase agreements entered into with the Reserve Bank to meet liquidity requirements during the global financial crisis.

3 Reserve Bank, as at 30 September 2011 (as at 30 September 2010 for 2010 vs 2009)

Review of operations (continued)

Balance sheet review

Consolidated Balance Sheet	The Banking Group **30 September 2011 $m**	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Assets					
Cash and balances with central banks	**1,215**	522	213	110	102
Due from other financial institutions	**699**	3	3	3	-
Derivative financial instruments	**85**	17	22	12	-
Trading securities	**3,261**	2,587	4,421	1,973	2,382
Available-for-sale securities	**1,518**	44	37	35	-
Loans	**51,250**	50,034	48,174	46,795	42,559
Due from related entities	**1,517**	830	576	2,349	1,022
Current tax assets	**-**	-	10	-	-
Investment in associate	**48**	48	48	48	-
Goodwill and other intangible assets	**567**	567	575	579	603
Property, plant and equipment	**154**	127	92	76	88
Deferred tax assets	**194**	257	196	132	81
Other assets	**148**	143	142	183	174
Total assets	**60,656**	55,179	54,509	52,295	47,011
Liabilities					
Due to other financial institutions	**100**	-	-	-	-
Deposits	**34,886**	32,466	32,495	32,227	29,411
Derivative financial instruments	**84**	-	-	-	-
Trading liabilities	**-**	-	1,885	-	-
Debt issues	**17,630**	15,439	12,369	11,102	11,699
Current tax liabilities	**45**	14	-	69	31
Provisions	**70**	73	76	67	54
Other liabilities	**569**	541	524	696	575
Total liabilities excluding perpetual subordinated notes and due to related entities	**53,384**	48,533	47,349	44,161	41,770
Perpetual subordinated notes	**970**	970	970	970	970
Due to related entities	**1,806**	1,628	2,426	2,249	1,577
Total liabilities	**56,160**	51,131	50,745	47,380	44,317
Net assets	**4,496**	4,048	3,764	4,915	2,694
Equity					
Share capital	**3,470**	3,470	3,470	3,250	2,415
Preference share capital	**-**	-	-	1,300	-
Retained profits	**967**	548	284	344	249
Available-for-sale securities reserve	**31**	25	18	16	-
Cash flow hedge reserve	**20**	(1)	(15)	(3)	21
Total equity attributable to owners of the Banking Group	**4,488**	4,042	3,757	4,907	2,685
Non-controlling interests	**8**	6	7	8	9
Total equity	**4,496**	4,048	3,764	4,915	2,694

The amounts as at 30 September have been extracted from the audited financial statements of the Banking Group.

Assets – 2011 vs 2010

Total assets as at 30 September 2011 increased $5.5 billion or 9.9% to $60.7 billion from $55.2 billion as at 30 September 2010, primarily due to increases in available-for-sale securities and loans of $1.5 billion and $1.2 billion, respectively and to a lesser extent cash and balances with central banks, due from other financial institutions and trading securities.

Available-for-sale securities increased to $1.5 billion following the purchase of New Zealand Government bonds and supranational securities, held as part of a strategic liquidity portfolio.

Loans increased $1.2 billion due to an increase in gross housing loans of $837 million and gross non-housing loans of $357 million. Gross loans within Consumer Banking grew at 2.7% for the year ended 30 September 2011 compared to total system growth of 1.1%[1] during the year.

Cash and balances with central banks increased $693 million to $1.2 billion as the Bank took over responsibility for the settlement account with the Reserve Bank, previously controlled by the NZ Branch. Assuming control of this settlement account formed part of preparatory undertakings in advance of the transfer of banking operations from the NZ Branch to the Bank.

Other liquid asset holdings, including amounts due from other financial institutions and trading securities, increased by $696 million and $674 million, respectively, mainly due to new inter-bank placements and increased holdings of certificates of deposits.

1 Reserve Bank, as at 30 September 2011

Review of operations (continued)

Liabilities and equity – 2011 vs 2010

Total liabilities increased $5.0 billion or 9.8% to $56.2 billion as at 30 September 2011 from $51.1 billion as at 30 September 2010, primarily due to increases in deposits and debt issues of $2.4 billion and $2.2 billion, respectively. These increases funded both loan and liquid asset growth in 2011.

Deposits as at 30 September 2011 increased $2.4 billion as deposits at amortised cost (customer deposits, both at call and term) increased $2.8 billion, partially offset by a reduction in deposits at fair value (significantly comprising certificates of deposit) of $399 million. Overall customer deposits increased 9.2% compared to 2010 with 8.7% and 10.4% growth in the Consumer and Business Banking deposits segments respectively. Overall growth was above system growth of 7.8%[1] for deposits.

Debt issues increased $2.2 billion or 14.2% to $17.6 billion as at 30 September 2011 from $15.4 billion as at 30 September 2010. This increase was due to a $2.7 billion net debt issuance partially offset by a $477 million reduction in debt due to fair value and foreign exchange revaluations. The increase in debt issues was in short-term commercial paper and an increase in long-term non-domestic issuance as the Banking Group launched its inaugural covered bond of €1.0 billion ($1.8 billion) during 2011.

Total equity as at 30 September 2011 increased $448 million to $4.5 billion, from $4.0 billion as at 30 September 2010. This was primarily due to profit after income tax expense attributable to owners of the Banking Group of $429 million for the year ended 30 September 2011, as reflected in retained profits and a $21 million increase in the cash flow hedge reserve. No new share capital was issued during the year ended 30 September 2011.

Assets – 2010 vs 2009

Total assets as at 30 September 2010 increased $670 million or 1.2% to $55.2 billion from $54.5 billion as at 30 September 2009.

This was primarily due to an increase of $1.9 billion in loans, mainly due to an increase in home lending of $1.7 billion within Consumer Banking. Home lending grew at 5.6% within Consumer Banking compared to total system growth of 2.5%[2].

Trading securities decreased $1.8 billion due to a $1.0 billion reduction in holdings of government securities (which were used to fund the repayment of maturing certificates of deposit issued) and a $0.8 billion reduction in certificates of deposit held, in accordance with the Reserve Bank's new BS13 liquidity requirements.

Liabilities and equities – 2010 vs 2009

Total liabilities increased $386 million or 0.8% to $51.1 billion as at 30 September 2010 from $50.7 billion as at 30 September 2009.

Deposits at amortised cost (customer deposits) increased $1.5 billion across both Consumer and Business Banking, as term deposits became the preferred deposit product in 2010 in the low interest rate environment, while certificates of deposit declined $1.6 billion as a result of the Reserve Bank's new BS13 liquidity requirements effective 1 April 2010, which restrict banks from holding certificates of deposit as liquid assets to 2% of their total assets.

The increase of $3.1 billion in debt issues more than offset the funding gap created by the fall in trading liabilities of $1.9 billion following the expiry of the repurchase agreements entered into with the Reserve Bank to meet liquidity requirements during the global financial crisis in the prior period.

Total equity increased $284 million or 7.5% to $4.0 billion as at 30 September 2010 from $3.8 billion as at 30 September 2009 primarily due to a $264 million increase in retained profits. No new share capital was issued during the year ended 30 September 2010.

Return on equity and assets

The following table sets out the Banking Group's return on assets, return on equity, dividend payout ratio and equity to assets ratios for 2011, 2010 and 2009, respectively.

	The Banking Group		
	30 September 2011 %	30 September 2010 %	30 September 2009 %
Return on assets[1]	**0.77**	0.52	0.47
Return on equity[2]	**9.88**	7.12	5.84
Dividend payout ratio on ordinary shares[3]	**-**	-	94.71
Equity to assets ratio[4]	**7.80**	7.28	7.97

1 Calculated as profit after income tax expense divided by average total assets.
2 Calculated as profit after income tax expense divided by average total equity.
3 Calculated as dividends declared per ordinary share divided by profit after income tax expense per ordinary share.
4 Calculated as average total equity divided by average total assets.

1 Reserve Bank, as at 30 September 2011
2 Reserve Bank, as at 30 September 2010

Review of operations (continued)

Asset quality

	The Banking Group				
	30 September 2011 $m	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Impaired assets					
Individually impaired assets:					
Gross	**793**	742	670	278	116
Impairment provisions	**(224)**	(301)	(150)	(65)	(26)
Net	**569**	441	520	213	90
Restructured assets:					
Gross	**1**	-	1	-	2
Impairment provisions	**-**	-	-	-	-
Net	**1**	-	1	-	2
Past due assets 90+ days:[1]					
Gross	**256**	397	346	221	156
Impairment provisions	**(29)**	(54)	(46)	(24)	(12)
Net	**227**	343	300	197	144
Net impaired assets	**797**	784	821	410	236
Provisions for impairment charges and credit commitments					
Individually assessed provisions	**224**	301	150	65	26
Collectively assessed provisions	**375**	457	405	257	194
Total provisions for impairment charges and credit commitments	**599**	758	555	322	220
Less: provision for credit commitments	**(26)**	(29)	(35)	(22)	(20)
Total provisions for impairment charges	**573**	729	520	300	200
Asset quality					
Total impairment provisions to total impaired assets[1] (%)	**24.1**	31.2	19.3	17.8	13.9
Total impaired assets to gross loans[1] (%)	**2.03**	2.24	2.09	1.06	0.64
Total provisions for impairment charges to gross loans (%)	**1.11**	1.44	1.07	0.64	0.47
Total provisions for impairment charges to total impaired assets[1] (%)	**54.6**	64.0	51.1	60.1	73.0
Collectively assessed provisions to non-housing non-performing loans (%)	**49.4**	61.8	70.2	109.8	145.9

1 Past due assets 90+ days with collectively assessed impairment provisions held against them are classified as impaired assets for US Securities and Exchange Commission ('**US SEC**') reporting purposes. Under NZ IFRS, these assets are not included within impaired assets and the corresponding impairment provision on these assets is included within the collectively assessed provisions.

2011 vs 2010

As at 30 September 2011 total impaired assets as a percentage of gross loans was 2.03%, a decrease of 0.21% from 2.24% as at 30 September 2010. This decrease reflects the realisation of some assets as write offs, and an improving overall portfolio due to the improved credit decision process and the New Zealand economy showing continued signs of recovery. The increase in the gross loan book has also contributed to the reduction in the ratio.

Total impairment provisions to total impaired assets coverage was 24.1% as at 30 September 2011 which was a decrease from 31.2% as at 30 September 2010. This decrease was primarily driven by the write down against the provision of several assets in the property sector. Total provisions for impairment charges to gross loans was 1.11% as at 30 September 2011, a decrease from 1.44% as at 30 September 2010, reflecting the decrease in individually assessed provisions held following the write down of assets.

Potential problem loans, being those loans considered substandard but not yet impaired, were $410 million as at 30 September 2011, representing a net decrease of $454 million from 30 September 2010. The $454 million net decrease was primarily due to a decrease of $449 million in loans deteriorating and shifting to individually impaired assets, including six in the property sector. This was offset by a $52 million increase attributable to three customer loans identified as new potential problem loans in the same period.

Loans are considered potentially problematic where facilities are fully current as to interest and principal obligations; however, the customer demonstrates significant weakness in debt service or security coverage that jeopardises repayment of the debt within its current contractual terms. In the event these weaknesses are not rectified, possible loss of principal or interest could occur.

2010 vs 2009

As at 30 September 2010 total impaired assets as a percentage of gross loans was 2.24%, an increase from 2.09% as at 30 September 2009. This increase reflects the fragile nature of the recovery in the New Zealand economy following the New Zealand recession and the global financial crisis.

Total impairment provisions to total impaired assets coverage was 31.2% as at 30 September 2010 which was an increase from 19.3% as at 30 September 2009. This increase was primarily driven by an increase in provisions against property exposures within Business Banking as recent sales have declined as the market has remained depressed. Total provisions for impairment charges to gross loans was 1.44% as at 30 September 2010 and increased from 1.07% as at 30 September 2009. This increase was driven by higher total impairment provisions to total impaired assets coverage.

Potential problem loans as at 30 September 2010 were $864 million, a net increase of $171 million over 30 September 2009. The $171 million net increase was primarily due to an increase of $337 million attributable to loans identified as new potential problem loans in 2010 involving 18 customers, offset by a $152 million decrease attributable to loans which ceased to be potential problem loans in 2010 involving six customers and a net $41 million decrease attributable to six customers identified as having potential problem loans in both 2010 and 2009. The $337 million increase was predominantly driven by deteriorating conditions within the property sector.

Review of operations (continued)

Summary for loan loss experience

Analysis of the allowance for loan losses

The following table provides an analysis of the allowance for loan losses as at and for the years ended 30 September 2011, 2010, 2009, 2008 and 2007.

	The Banking Group				
	30 September 2011 $m	30 September 2010 $m	30 September 2009 $m	30 September 2008 $m	30 September 2007 $m
Balance of provisions for impairment charges and credit commitments (individually and collectively assessed) at beginning of the year	**758**	555	322	220	162
Charge-offs:					
Overdrafts	**(28)**	(16)	(12)	(3)	(2)
Money market loans	**(1)**	-	(21)	-	-
Term loans:					
Housing	**(98)**	(69)	(44)	(14)	(2)
Non-housing	**(225)**	(28)	(251)	(8)	-
Total New Zealand	**(352)**	(113)	(328)	(25)	(4)
Recoveries:					
Overdrafts	**(4)**	(5)	-	(2)	(1)
Money market loans	**-**	-	-	-	-
Term loans:					
Housing	**(30)**	(22)	(16)	(11)	(6)
Non-housing	**(12)**	(24)	(5)	(9)	(7)
Total New Zealand	**(46)**	(51)	(21)	(22)	(14)
Charge to the income statement[1]	**239**	367	582	149	76
Balance of provisions for impairment charges and credit commitments (individually and collectively assessed) at end of the year	**599**	758	555	322	220
Total charge-offs, net of recoveries	**(306)**	(62)	(307)	(3)	10
Ratio of net charge-offs to average loans outstanding during the year (%)	**0.61**	0.13	0.64	0.01	0.02

1 Charge to the income statement represents other movements in allowances for loan losses that are not included elsewhere in the table. Consequently, this cannot be directly reconciled to impairment charges on loans under NZ IFRS, as reported in the income statement.

Aggregate provisions for impairment charges as at 30 September 2011 decreased $159 million to $599 million compared to 2010. The decrease was primarily driven by the improved credit decision process and the improvements in the New Zealand economy. During 2011 the Banking Group's impairment charges on loans charged to the income statement decreased $128 million to $239 million. The charge to the income statement primarily reflects the movement in collectively assessed provisions and new individually assessed provisions, where the decrease of $128 million was driven by the continued stabilisation in the overall market. The commercial property market, in particular residential apartment development properties, continued to create the most concern.

The higher provision at 30 September 2010 reflected the fragile nature of the recovery in the domestic economy following the New Zealand recession and the global financial crisis. During 2010 the Banking Group's impairment charge to the income statement decreased $215 million to $367 million which was primarily related to the absence of the two large real estate and manufacturing loan losses experienced during 2009. As the Banking Group continued to review its provisioning processes by further utilising risk estimates in response to the economic conditions prevalent in New Zealand, the Banking Group increased the factors it uses to determine future impairments to improve the consumer loan portfolio provisioning coverage ratio, resulting in an increase of $60 million to the provision.

Review of operations (continued)

Allocation of the allowance for loan losses

The following table provides a breakdown of the allocation of the allowance for loan losses as at 30 September 2011, 2010, 2009, 2008 and 2007.

	The Banking Group					
	30 September 2011			30 September 2010		
	$m	**As a % of Total Impairment Provisions on Loans**	**% of Loans In Each Category to Total Gross Loans**	$m	As a % of Total Impairment Provisions on Loans	% of Loans In Each Category to Total Gross Loans
Individually assessed provisions by loan category						
Overdrafts	**4**	**0.67**	**1.82**	29	3.83	1.98
Credit card outstandings	**-**	**-**	**2.45**	-	-	2.46
Money market loans	**2**	**0.33**	**1.10**	-	-	1.16
Term loans:						
Housing	**64**	**10.68**	**67.71**	80	10.55	67.47
Non-housing	**127**	**21.21**	**26.52**	188	24.80	26.37
Other	**27**	**4.51**	**0.40**	4	0.53	0.56
Total individually assessed provisions	**224**	**37.40**	**N/A**	301	39.71	N/A
Total collectively assessed provisions	**375**	**62.60**	**N/A**	457	60.29	N/A
Total impairment provisions on loans	**599**	**100.00**	**100.00**	758	100.00	100.00

	The Banking Group					
	30 September 2009			30 September 2008		
	$m	As a % of Total Impairment Provisions on Loans	% of Loans In Each Category to Total Gross Loans	$m	As a % of Total Impairment Provisions on Loans	% of Loans In Each Category to Total Gross Loans
Individually assessed provisions by loan category						
Overdrafts	27	4.87	2.17	3	0.93	2.42
Credit card outstandings	-	-	2.43	-	-	2.44
Money market loans	-	-	1.18	-	-	1.26
Term loans:						
Housing	66	11.89	66.92	34	10.56	66.58
Non-housing	53	9.55	26.67	27	8.39	26.76
Other	4	0.72	0.64	1	0.31	0.54
Total individually assessed provisions	150	27.03	N/A	65	20.19	N/A
Total collectively assessed provisions	405	72.97	N/A	257	79.81	N/A
Total impairment provisions on loans	555	100.00	100.00	322	100.00	100.00

	The Banking Group		
	30 September 2007		
	$m	As a % of Total Impairment Provisions on Loans	% of Loans In Each Category to Total Gross Loans
Individually assessed provisions by loan category			
Overdrafts	1	0.45	2.50
Credit card outstandings	-	-	2.48
Money market loans	-	-	1.58
Term loans:			
Housing	15	6.82	67.80
Non-housing	10	4.55	25.21
Other	-	-	0.43
Total individually assessed provisions	26	11.82	N/A
Total collectively assessed provisions	194	88.18	N/A
Total impairment provisions on loans	220	100.00	100.00

Directors' statement

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

(a) contains all the 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 year ended 30 September 2011:

(a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;

(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Peter David Wilson

George Frazis

Philip Matthew Coffey

Janice Amelia Dawson

Christopher John David Moller

Ralph Graham Waters

Dated this 9th day of December 2011

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Income statements for the year ended 30 September

		The Banking Group		The Bank	
	Note	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Interest income	2	**3,600**	3,501	**3,583**	3,480
Interest expense	2	**(2,284)**	(2,337)	**(2,284)**	(2,344)
Net interest income		**1,316**	1,164	**1,299**	1,136
Non-interest income:					
Fees and commissions	3	**299**	287	**297**	284
Gains on ineffective hedges	3	**1**	3	**1**	3
Other non-interest income	3	**8**	1	**(4)**	(1)
Total non-interest income		**308**	291	**294**	286
Net operating income		**1,624**	1,455	**1,593**	1,422
Operating expenses	4	**(771)**	(704)	**(767)**	(700)
Impairment charges on loans	6	**(224)**	(334)	**(225)**	(324)
Operating profit		**629**	417	**601**	398
Share of profit of associate accounted for using equity method		**1**	1	**1**	-
Profit before income tax expense		**630**	418	**602**	398
Income tax expense	7	**(197)**	(132)	**(189)**	(126)
Profit after income tax expense		**433**	286	**413**	272
Profit after income tax expense attributable to:					
Owners of the Banking Group		**429**	283	**413**	272
Non-controlling interests		**4**	3	**-**	-
		433	286	**413**	272

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of comprehensive income for the year ended 30 September

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Profit after income tax expense	**433**	286	**413**	272
Other comprehensive income:				
Net unrealised gains from changes in fair value of available-for-sale securities	**6**	7	**6**	7
Cash flow hedges:				
Net gains from changes in fair value of cash flow hedges	**18**	16	**18**	16
Transferred to the income statement	**11**	6	**11**	6
Actuarial losses on employee defined benefit superannuation schemes	**(15)**	(27)	**(15)**	(27)
Income tax relating to components of other comprehensive income[1]	**(3)**	-	**(3)**	-
Other comprehensive income net of tax	**17**	2	**17**	2
Total comprehensive income	**450**	288	**430**	274
Total comprehensive income attributable to:				
Owners of the Banking Group	**446**	285	**430**	274
Non-controlling interests	**4**	3	**-**	-
	450	288	**430**	274

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

Tax effects relating to each component of other comprehensive income

	The Banking Group			The Bank		
	Before Tax Amount $m	**Tax (Expense)/ Benefit $m**	**Net of Tax Amount $m**	**Before Tax Amount $m**	**Tax (Expense)/ Benefit $m**	**Net of Tax Amount $m**
For the year ended 30 September 2011						
Net unrealised gains from changes in fair value of available-for-sale securities	**6**	**-**	**6**	**6**	**-**	**6**
Cash flow hedges:						
Net gains from changes in fair value of cash flow hedges	**18**	**(5)**	**13**	**18**	**(5)**	**13**
Transferred to the income statement	**11**	**(3)**	**8**	**11**	**(3)**	**8**
Actuarial losses on employee defined benefit superannuation schemes	**(15)**	**5**	**(10)**	**(15)**	**5**	**(10)**
Other comprehensive income	**20**	**(3)**	**17**	**20**	**(3)**	**17**
For the year ended 30 September 2010						
Net unrealised gains from changes in fair value of available-for-sale securities	7	-	7	7	-	7
Cash flow hedges:						
Net gains from changes in fair value of cash flow hedges	16	(6)	10	16	(6)	10
Transferred to the income statement	6	(2)	4	6	(2)	4
Actuarial losses on employee defined benefit superannuation schemes	(27)	8	(19)	(27)	8	(19)
Other comprehensive income	2	-	2	2	-	2

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the year ended 30 September

	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
Year ended 30 September 2010							
Profit after income tax expense	-	283	-	-	283	3	286
Other comprehensive (expense)/income	-	(19)	7	14	2	-	2
Total comprehensive income for the year ended 30 September 2010	-	264	7	14	285	3	288
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 30 September 2010	3,470	548	25	(1)	4,042	6	4,048
Year ended 30 September 2011							
Profit after income tax expense	**-**	**429**	**-**	**-**	**429**	**4**	**433**
Other comprehensive (expense)/income	**-**	**(10)**	**6**	**21**	**17**	**-**	**17**
Total comprehensive income for the year ended 30 September 2011	**-**	**419**	**6**	**21**	**446**	**4**	**450**
Transaction with owners:							
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
As at 30 September 2011	**3,470**	**967**	**31**	**20**	**4,488**	**8**	**4,496**

	The Bank				
	Share Capital $m	Retained Profits $m	Available-for-sale Securities Reserve $m	Cash Flow Hedge Reserve $m	Total $m
As at 1 October 2009	3,470	249	18	(15)	3,722
Year ended 30 September 2010					
Profit after income tax expense	-	272	-	-	272
Other comprehensive (expense)/income	-	(19)	7	14	2
Total comprehensive income for the year ended 30 September 2010	-	253	7	14	274
As at 30 September 2010	3,470	502	25	(1)	3,996
Year ended 30 September 2011					
Profit after income tax expense	**-**	**413**	**-**	**-**	**413**
Other comprehensive (expense)/income	**-**	**(10)**	**6**	**21**	**17**
Total comprehensive income for the year ended 30 September 2011	**-**	**403**	**6**	**21**	**430**
As at 30 September 2011	**3,470**	**905**	**31**	**20**	**4,426**

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 30 September

	Note	The Banking Group 2011 $m	The Banking Group 2010 $m	The Bank 2011 $m	The Bank 2010 $m
Assets					
Cash and balances with central banks		**1,215**	522	**1,215**	522
Due from other financial institutions	9	**699**	3	**699**	-
Derivative financial instruments	27	**85**	17	**85**	17
Trading securities	10	**3,261**	2,587	**3,261**	2,587
Available-for-sale securities	11	**1,518**	44	**1,518**	44
Loans	12, 13	**51,250**	50,034	**51,107**	49,875
Due from related entities	26	**1,517**	830	**9,511**	8,331
Investments in controlled entities		**-**	-	**281**	281
Investment in associate	26	**48**	48	**-**	-
Goodwill and other intangible assets	14	**567**	567	**567**	567
Property, plant and equipment	15	**154**	127	**15**	19
Deferred tax assets	16	**194**	257	**176**	241
Other assets	17	**148**	143	**129**	142
Total assets		**60,656**	55,179	**68,564**	62,626
Liabilities					
Due to other financial institutions	18	**100**	-	**100**	-
Deposits	19	**34,886**	32,466	**34,390**	32,149
Derivative financial instruments	27	**84**	-	**84**	-
Debt issues	20	**17,630**	15,439	**1,598**	2,182
Current tax liabilities		**45**	14	**37**	10
Provisions	21	**70**	73	**70**	73
Other liabilities	22	**569**	541	**472**	467
Total liabilities excluding perpetual subordinated notes and due to related entities		**53,384**	48,533	**36,751**	34,881
Perpetual subordinated notes	23	**970**	970	**970**	970
Due to related entities	26	**1,806**	1,628	**26,417**	22,779
Total liabilities		**56,160**	51,131	**64,138**	58,630
Net assets		**4,496**	4,048	**4,426**	3,996
Equity					
Share capital	25	**3,470**	3,470	**3,470**	3,470
Retained profits		**967**	548	**905**	502
Available-for-sale securities reserve		**31**	25	**31**	25
Cash flow hedge reserve		**20**	(1)	**20**	(1)
Total equity attributable to owners of the Banking Group		**4,488**	4,042	**4,426**	3,996
Non-controlling interests		**8**	6	**-**	-
Total equity		**4,496**	4,048	**4,426**	3,996
Interest earning and discount bearing assets		**59,737**	54,051	**67,476**	61,347
Interest and discount bearing liabilities		**52,060**	46,978	**60,006**	54,463

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the year ended 30 September

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Cash flows from operating activities				
Interest income received	**3,606**	3,499	**3,589**	3,478
Interest expense paid	**(2,284)**	(2,306)	**(2,306)**	(2,330)
Non-interest income received	**322**	298	**317**	290
Net (increase)/decrease in trading securities	**(674)**	1,834	**(674)**	1,834
Net decrease in trading liabilities	**-**	(1,880)	**-**	(1,880)
Operating expenses paid	**(682)**	(679)	**(693)**	(695)
Income tax paid	**(151)**	(125)	**(149)**	(122)
Net cash provided by operating activities	**137**	641	**84**	575
Cash flows from investing activities				
Net increase in available-for-sale securities	**(1,468)**	-	**(1,468)**	-
Net loans advanced to customers	**(1,440)**	(2,200)	**(1,457)**	(2,190)
Net increase in due from related entities	**(687)**	(242)	**(1,180)**	(182)
Purchase of capitalised computer software	**(44)**	(35)	**(44)**	(35)
Purchase of property, plant and equipment	**(55)**	(59)	**(1)**	(16)
Proceeds from disposal of property, plant and equipment	**-**	1	**-**	1
Net cash used in investing activities	**(3,694)**	(2,535)	**(4,150)**	(2,422)
Cash flows from financing activities				
Net increase/(decrease) in deposits	**2,420**	(29)	**2,241**	(330)
Net proceeds from/(payment of) debt issues	**2,191**	3,070	**(584)**	(21)
Net increase/(decrease) in due to related entities	**237**	(834)	**3,701**	2,508
Payment of dividends	**(2)**	(4)	**-**	-
Net cash provided by financing activities	**4,846**	2,203	**5,358**	2,157
Net increase in cash and cash equivalents	**1,289**	309	**1,292**	310
Cash and cash equivalents at beginning of the year	**525**	216	**522**	212
Cash and cash equivalents at end of the year	**1,814**	525	**1,814**	522
Cash and cash equivalents at end of the year comprise:				
Cash and balances with central banks	**1,215**	522	**1,215**	522
Due from other financial institutions (net)	**599**	3	**599**	-
	1,814	525	**1,814**	522
Reconciliation of profit after income tax expense to net cash provided by operating activities				
Profit after income tax expense	**433**	286	**413**	272
Adjustments:				
Impairment charges on loans	**224**	334	**225**	324
Computer software amortisation costs	**42**	43	**42**	43
Depreciation on property, plant and equipment	**22**	23	**4**	5
(Gain)/loss on disposal of property, plant and equipment	**(7)**	-	**1**	-
Loss on disposal of computer software	**2**	-	**2**	-
Share-based payments	**15**	2	**15**	2
Movement in other assets	**8**	(1)	**13**	(3)
Movement in other liabilities	**15**	(7)	**(8)**	(28)
Movement in current and deferred tax	**94**	7	**92**	6
Tax losses transferred to related entities	**(45)**	-	**(49)**	-
Movement in trading securities	**(674)**	1,834	**(674)**	1,834
Movement in trading liabilities	**-**	(1,885)	**-**	(1,885)
Movement in derivative financial instruments	**8**	5	**8**	5
Net cash flows provided by operating activities	**137**	641	**84**	575

The accompanying notes (numbered 1 to 41) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

1.1 General accounting policies

Statutory base

These financial statements have been prepared and presented in accordance with the Financial Reporting Act 1993, the Order and the Reserve Bank Act. The Bank's financial statements are for Westpac New Zealand Limited as a separate entity and the consolidated financial statements are for the Banking Group, which comprises the Bank and its controlled entities.

These financial statements have also been prepared in accordance with NZ GAAP, NZ IFRS and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. These financial statements comply with IFRS, as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Board on 9 December 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 the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accruals basis of accounting have been adopted. All amounts in these financial statements have been rounded in millions of New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements that were used in preparing the financial statements 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 Note 1.3 Changes in accounting policies.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information 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. The definition of control is based on the substance rather than the legal form of an arrangement. 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 they are de-consolidated from the date on which that control ceases.

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

Changes in the Banking Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity.

If the Banking Group loses control of a subsidiary, any resulting gain or loss is recognised in the income statement.

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.

Foreign currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the '**functional currency**'). The financial statements of the Bank and the Banking Group are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

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

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

1.2 Particular accounting policies

Revenue recognition

Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the income statement using the effective interest method.

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

Interest relating to impaired loans is recognised using the loan's original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges or for a variable rate loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring the impairment charges. For loans that have been impaired, this method results in cash receipts being apportioned between interest and principal.

Note 1 Statement of accounting policies (continued)

Fee and commission income

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

Other dividend income

Dividends on quoted shares are recognised on the ex-dividend date. Dividends on unquoted shares are recognised when the entity's right to receive payment is established.

Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the income statement as non-interest income.

Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities is recognised in the income statement using the effective interest method.

Impairment charges on loans and receivables carried at amortised cost

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

Leasing

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

Commissions and other fees

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

Share-based payment

Certain employees are entitled to participate in option and share ownership schemes granted by the Ultimate Parent Bank.

The fair value of performance options, performance share rights and unhurdled share rights provided to employees as share-based payments is recognised as an expense with a corresponding payable to the Ultimate Parent Bank. The fair value is measured at grant date and is recognised over the period the services are received which is the expected vesting period during which the employees would become entitled to exercise the option, performance share right or unhurdled share right.

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

Taxation

Income tax

Income tax expense on the profit for the year comprises current tax and movement in deferred tax balances.

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

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

Current and deferred taxes attributable to amounts recognised in other comprehensive income are also recognised in other comprehensive income.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to income taxes levied by the same taxation authority on the same taxable entity or group of entities in the Banking Group.

Goods and services tax

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

Business combinations

External acquisitions

The acquisition method of accounting is used to account for external business combinations. Consideration transferred is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity; other acquisition-related transaction costs are recognised as an expense in the income statement when they are incurred.

Note 1 Statement of accounting policies (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

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

Common control transactions

The predecessor method of accounting is used to account for business combinations between entities in the Banking Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Ultimate Parent Bank's perspective. The excess of cost of acquisition over the initial carrying values of the entity's share of the net assets acquired is recorded as part of a common control reserve.

Assets

Financial assets

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

- ***Financial assets at fair value through profit or loss***

  This category has two sub-categories: first, financial assets held for trading and second, those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial assets that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy, or if designating it at fair value reduces an accounting mismatch.
- ***Loans and receivables***

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

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

Other investments, which comprise unlisted equity securities that do not have a quoted price in an active market and where fair value cannot be estimated within a reasonable range of probable outcomes, are carried at cost.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss and available-for-sale are recognised on trade-date, the date on which the Banking Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrower. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Banking Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; and
- either the Banking Group has transferred substantially all the risks and rewards of the asset, or the Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement. In some such cases the Banking Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Banking Group has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

Cash and balances with central banks

Cash and balances with central banks include cash at branches, central bank settlement account balances and nostro balances. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate. These balances have a maturity of less than three months.

Due from other financial institutions

Due from other financial institutions include loans and settlement account balances due from other financial institutions. They are accounted for as loans and receivables and subsequently measured at amortised cost using the effective interest method.

Note 1 Statement of accounting policies (continued)

Derivative financial instruments

Derivative financial instruments, including forwards, futures, swaps and options, are recognised in the balance sheet at fair value. Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Also included in the determination of the fair value of derivatives is a credit value adjustment. Where the derivative has a positive fair value (asset), this credit adjustment is to reflect the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Banking Group's own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreement.

Trading securities

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

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

Available-for-sale securities

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

Loans

Loans include advances, overdrafts, home loans, credit card and other personal lending and term loans. The accounting treatment for loans is set out above.

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

Loan products that have both a mortgage and deposit facility are presented on a gross basis in the balance sheet, segregating the loan and deposit component into the respective balance sheet line items. Interest earned on this product is presented on a net basis in the income statement as this reflects how the customer is charged.

Due from related entities

This amount includes amounts due from controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

Impairment of financial assets

Impaired financial assets include:

- individually impaired assets, which are defined as assets where an individual provision has been raised to cover the expected loss for which full recovery of principal is doubtful; and
- restructured assets, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

Assets that are in arrears based upon their contractual terms, but not yet impaired, are reported separately as 'past due assets'. Assets that are greater than 90 days past their contractual terms, but not yet impaired, are reported separately as '90 days past due assets'.

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

The following accounting policies apply to the impairment of financial assets:

i) Assets carried at amortised cost

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

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Banking Group would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  (a) adverse changes in the payment status of borrowers in the group; or
  (b) national or local economic conditions that correlate with defaults on the assets in the group.

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

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

Note 1 Statement of accounting policies (continued)

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

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

ii) Available-for-sale

The Banking Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt instruments classified as available-for-sale, impairment is determined using the same methodology as Note 1 – Impairment of financial assets (i) assets carried at amortised cost. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment charge on that financial asset previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the income statement, the impairment charge is reversed through the income statement. Subsequent reversal of impairment charges on equity instruments is not recognised in the income statement.

Investments in related entities including associates

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

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

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

Goodwill and other intangible assets

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised NZ IFRS 3 *Business Combinations* ('**NZ IFRS 3**'), goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Banking Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised NZ IFRS 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the acquisition date fair value of net identifiable assets acquired.

All goodwill is considered to have an indefinite life.

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

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

Goodwill was last tested for impairment as at 30 September 2011 and no impairment has been recognised in the income statement.

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

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

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

Property, plant and equipment

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

Note 1 Statement of accounting policies (continued)

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

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

Other assets
Other assets include accrued interest receivable, trade debtors and prepayments.

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

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

Liabilities

Financial liabilities
The Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

- ***Financial liabilities at fair value through profit or loss***
  This category has two sub-categories: first, financial liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial liability is classified in this category if incurred principally for repurchasing it in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on initial recognition by management. This designation may only be made if the financial liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy, or if designating it at fair value reduces an accounting mismatch.
- ***Financial liabilities at amortised cost***
  This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition of financial liabilities
Financial liabilities are initially recognised at fair value less transaction costs except where they are designated at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for derivatives and liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Deposits at fair value
Deposits at fair value include certificates of deposit and interest bearing deposits. They are classified at fair value through profit or loss as they are managed as part of a trading portfolio.

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

Derivative financial instruments
Derivative financial instruments, including forwards, futures, swaps and options, are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. Also included in the determination of the fair value of derivatives is a credit value adjustment. Where the derivative has a positive fair value (asset), this credit adjustment is to reflect the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Banking Group's own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreement.

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

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

Note 1 Statement of accounting policies (continued)

Financial guarantees

Financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of a financial guarantee contract is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair value is accounted for as a contribution and is recognised as part of the cost of the investment.

Other liabilities

Other liabilities include accrued interest payable, amounts outstanding on the credit card loyalty programme, trade creditors, other accrued expenses and the deficit arising from the defined benefit superannuation scheme.

Perpetual subordinated notes

Perpetual subordinated notes are measured at amortised cost and qualify as Upper Tier Two Capital, as defined by the Reserve Bank for capital adequacy purposes.

Due to related entities

This amount includes amounts due to controlled entities of the Banking Group and all other entities controlled by the Ultimate Parent Bank.

Employee entitlements

Wages and salaries, annual leave and sick leave

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

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

Long service leave

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

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

Superannuation obligations

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

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

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

Actuarial gains and losses related to the defined benefit superannuation scheme are recorded directly in retained earnings. The net deficit within the scheme is recognised and disclosed separately in 'Other liabilities'.

Termination benefits

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

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

Provisions

Non-lending losses

Non-lending losses are any losses that have not arisen as a consequence of an impaired credit decision. Those provisions include litigation and associated costs, frauds and the correction of operational issues. A provision is recognised where it is probable that there will be an outflow of economic resources.

Provision for impairment on credit commitments

Provision is made for losses incurred as a result of the commitment to extend credit.

Provision for restructuring

Provision for restructuring is only recognised when a detailed formal plan has been approved and the restructuring has either commenced or been announced publicly such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. Costs relating to ongoing activities are not provided for.

Note 1 Statement of accounting policies (continued)

Equity and reserves

Ordinary shares

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

Available-for-sale securities reserve

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

Cash flow hedge reserve

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

Hedging

The Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Banking Group enters into derivative transactions that provide economic hedges for risk exposures, but do not meet the requirements for hedge accounting treatment. Gains and losses on these derivative transactions are recorded in the income statement. The Banking Group also enters into derivative transactions that are designated and qualify as either fair value hedges or cash flow hedges for recognised assets and liabilities or forecast transactions. The method of recognising the fair value gain or loss on derivatives depends on the nature of the hedging relationship. Hedging relationships are of two types:

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

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

A hedge is regarded as highly effective if, at inception and throughout its life, the Banking Group can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item.

Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, any previous adjustment to the carrying amount of a hedged item recognised at amortised cost is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains until the disposal of the equity security.

Cash flow hedge

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

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

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

Embedded derivatives

In certain instances a derivative may be embedded in a ‘host contract’. If the host contract is not carried at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Loan securitisation

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

Leases

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

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

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

Note 1 Statement of accounting policies (continued)

Offsetting

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Banking Group has determined that the Bank's executive team is its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

Statement of cash flows

Basis of presentation

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

Cash and cash equivalents

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

Netting of cash flows

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

1.3 Changes in accounting policies

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.

1.4 Future accounting developments

The following new standards, interpretations and amendments have been issued, but are not yet effective and have not been early adopted by the Banking Group:

- NZ IFRS 7 *Financial Instruments: Disclosures* ('**NZ IFRS 7**') – The following amendments:
  - Amendments issued in July 2010 and are applicable to the Banking Group in the 2012 financial year. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended and removed. It is not expected to have a material impact on the Banking Group.
  - *Amendments to NZ IFRS 7 Disclosures – Transfers of Financial Assets* were issued in November 2010 and are applicable to the Banking Group in the 2012 financial year. The amendments require additional disclosures about the transfer of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. It is not expected to have a material impact on the Banking Group.
- NZ IFRS 9 *Financial Instruments* – If this standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are that:
  - it replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
  - a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
  - if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
  - there will be no separation of an embedded derivative where the instrument is a financial asset;
  - equity instruments must be measured at fair value, however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss, however, dividends from such investments will continue to be recognised in profit or loss; and
  - if an entity holds an investment in asset-backed securities it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through, then the investment must be measured at fair value.

Note 1 Statement of accounting policies (continued)

The reissued version of the Standard in December 2010 included the requirements for classification and measurement of financial instruments including both financial assets and financial liabilities as well as recognition and derecognition requirements for financial instruments. The main additional change as a result of the reissued version relates to the measurement of financial liabilities. Specifically, the portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The standard will impact the classification and measurement of the Banking Group's financial instruments.

- NZ IFRS 10 *Consolidated Financial Statements* ('**NZ IFRS 10**') and NZ IFRS 12 *Disclosure of Interests in Other Entities* ('**NZ IFRS 12**') – These new standards were issued in June 2011 and are applicable to the Banking Group in the 2014 financial year. The new consolidation standard changes the definition of control and requires that it be applied to all entities to determine whether control exists. The new definition focuses on the need for both power and exposure to variability of returns in order for control to be present. The new disclosure standard increases the disclosure requirements for both consolidated and unconsolidated entities. The new standards are not expected to have a material impact on the Banking Group.
- NZ IFRS 13 *Fair Value Measurement* ('**NZ IFRS 13**') – The new standard was issued in June 2011 and is applicable to the Banking Group in the 2014 financial year. The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. NZ IFRS 13 applies to all assets and liabilities measured at fair value, not just financial instruments. It is not expected to have a material impact on the Banking Group.
- NZ IAS 1 *Presentation of Financial Statements* ('**NZ IAS 1**') – The amendments were issued in July 2010 and are applicable to the Banking Group in the 2012 financial year. The amendments clarify that an analysis of other comprehensive income by item is required to be disclosed either in the statement of changes in equity or in the notes to the financial statements. It is not expected to have a material impact on the Banking Group.
- *Presentation of Items of Other Comprehensive Income* (Amendments to NZ IAS 1) – The amendments were issued in August 2011 and are applicable to the Banking Group in the 2013 financial year. Under the amended standard, the format of other comprehensive income will need to be changed to separate items that might be recycled to net profit from items that will not be recycled. Items included in other comprehensive income that may be recycled into profit or loss in future periods include gains or losses on cash flow hedges. Those that will not be recycled include fair value changes on own credit risk for the financial liabilities designated at fair value and defined benefits actuarial gains and losses.
- NZ IAS 19 *Employee Benefits* – The amendments were issued in August 2011 and are applicable to the Banking Group in the 2014 financial year. The amendments require entities to account immediately, in retained earnings, for all estimated changes in the cost of providing these benefits and all changes in the value of plan assets (often referred to as the removal of the 'corridor amount'). The amendments also contain a new presentation approach that clearly distinguishes the different components of the cost of these benefits. Minimal impact is expected on the Banking Group as a result of these changes as the Banking Group's current accounting and presentation treatment is in line with the new amendments. Two areas of impact will be the change in the measurement of pension expense and additional disclosures to provide clearer information about the risks arising from defined benefit plans.
- NZ IAS 24 *Related Party Disclosures* – The revised standard was approved in November 2009 and is applicable to the Banking Group in the 2012 financial year. The main changes to the standard simplify the definition of a related party and clarify its intended meaning. It is not expected to have a material impact on the Banking Group.
- NZ IAS 27 *Separate Financial Statements* – The amendments were issued in June 2011 and are applicable to the Banking Group in the 2014 financial year. The amendments remove the accounting and disclosure requirements for consolidated financial statements as a result of the issuance of NZ IFRS 10. It is not expected to have a material impact on the Banking Group.
- NZ IAS 28 *Investments in Associates and Joint Ventures* – The standard was issued in June 2011 and is applicable to the Banking Group in the 2014 financial year. This standard supersedes NZ IAS 28 *Investments in Associates* as a result of the issuance of NZ IFRS 12. It is not expected to have a material impact on the Banking Group.
- NZ IAS 34 *Interim Financial Reporting* – The amendments were issued in July 2010 and are applicable to the Banking Group in the 2012 financial year. The amendments add examples to the list of events or transactions that require disclosure under NZ IAS 34. It is not expected to have a material impact on the Banking Group.
- New Zealand Equivalent to International Financial Reporting Interpretations Committee ('**NZ IFRIC**') 13 *Customer Loyalty Programmes* – The amendments were issued in July 2010 and are applicable to the Banking Group in the 2012 financial year. The amendments clarify the fair value of award credits and takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. It is not expected to have a material impact on the Banking Group.
- NZ IFRIC 14 NZ IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – The amendments were issued in December 2009 and are applicable to the Banking Group in the 2012 financial year. The amendments remove the unintended consequence arising from the treatment of prepayments when there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. It is not expected to have a material impact on the Banking Group.
- *Amendments to NZ IFRS 7: Disclosure Amendments to Appendix E New Zealand-specific additional disclosure requirements applicable to financial institutions* – The amendments were issued in March 2011 and are applicable to the Banking Group in the 2012 financial year. The amendments replaced the term 'financial institutions' with the term 'deposit takers'. The amendments also remove registered banks from its scope as the disclosure requirements have been relocated to the Order. It is not expected to have a material impact on the Banking Group.
- *Amendments to NZ IFRSs to Harmonise with IFRS and Australian Accounting Standards* – The amendments were issued in April 2011 and are applicable to the Banking Group in the 2012 financial year. The amendments remove certain New Zealand-specific disclosures and relocate certain disclosure requirements to a new standard. It is not expected to have a material impact on the Banking Group.
- Financial Reporting Standard 44 *New Zealand Additional Disclosures* – The new standard was issued in April 2011 and is applicable to the Banking Group in the 2012 financial year. This new standard is applicable only to New Zealand and is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board and Financial Reporting Standards Board. This standard relocates certain New Zealand specific disclosures from other NZ IFRS and also revises certain disclosures. It is not expected to have a material impact on the Banking Group.

Note 1 Statement of accounting policies (continued)

1.5 Critical accounting estimates, judgment and assumptions

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

Management has discussed the accounting policies which are sensitive to the use of estimates, judgment and assumptions with the NZBAC.

Critical accounting estimates

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

Fair value of financial instruments

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

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

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

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

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

The fair value of financial instruments is provided in Note 28, together with the mechanism by which fair value has been derived.

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

Provisions for impairment charges on loans and credit commitments

The Banking Group's loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan.

The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows calculated at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans. Provisions for loan impairment represent management's estimate of the impairment charges incurred in the loan portfolios as at the reporting date. Changes to the provisions for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of the impairment charge on loans.

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

(a) Individual component – all impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Banking Group's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans). All relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

(b) Collective component – this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred, but have not been separately identified as at the reporting date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence period. The emergence period for each loan product type is determined through detailed studies of loss emergence patterns. Loan files where losses have emerged are reviewed to identify the average time period between observable loss indicator events and the loss becoming identifiable. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

The provisions for impairment on loans are disclosed in Notes 12 and 13 whilst the provisions for impairment on credit commitments are disclosed in Note 21. The impairment charge reflected in the income statement is disclosed in Note 6.

Goodwill

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised NZ IFRS 3, goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Banking Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised NZ IFRS 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the acquisition date fair value of identifiable net assets acquired.

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

Note 1 Statement of accounting policies (continued)

To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value-in-use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable and willing parties. The assumptions applied to determine if any impairment exists along with the carrying amount of goodwill, are outlined in Note 14.

Superannuation obligations

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

The actuarial valuation of scheme obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between scheme assets and obligations, and the superannuation cost charged to the income statement. The carrying amount and the primary assumptions used in the calculation of superannuation defined benefit obligation are disclosed in Note 31.

Provisions (other than loan impairment losses)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation costs and non-lending losses as disclosed in Note 21. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows. Payments which are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

Critical accounting judgments

The judgments, apart from those involving estimations, that management has made in applying the Banking Group's accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as follows:

Income taxes

The Banking Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

The Banking Group estimates its tax liabilities based on the Banking Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact the current and deferred tax provisions in the period when such determinations are made.

Securitisation and the consolidation of special purpose vehicles

The Banking Group sponsors the formation of special purpose vehicles ('**SPV**') in the ordinary course of business, primarily to provide funding and financial services products to its customers. SPVs are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under NZ GAAP, an SPV is consolidated and reported as part of the Banking Group if it is controlled by the parent entity in line with NZ IAS 27 *Consolidated and Separate Financial Statements* or deemed to be controlled in applying NZ SIC 12 *Consolidation – Special Purpose Entities*. The definition of control is based on the substance rather than the legal form of the arrangement. As it can sometimes be difficult to determine whether the Banking Group controls an SPV, management makes judgments about the Banking Group's exposure to the associated risks and rewards, as well as its ability to make operational decisions for the SPV.

Note 2 Net interest income

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Interest income				
Cash and balances with central banks	**11**	7	**11**	7
Trading securities	**179**	117	**179**	117
Loans	**3,334**	3,330	**3,317**	3,309
Available-for-sale securities	**26**	-	**26**	-
Impaired assets	**50**	47	**50**	47
Total interest income[1]	**3,600**	3,501	**3,583**	3,480
Interest expense				
Deposits	**1,227**	1,136	**1,207**	1,126
Trading liabilities	**-**	19	**-**	19
Debt issues	**395**	384	**168**	184
Related entities (including perpetual subordinated notes)	**659**	794	**906**	1,011
Other	**3**	4	**3**	4
Total interest expense[2]	**2,284**	2,337	**2,284**	2,344
Net interest income	**1,316**	1,164	**1,299**	1,136

1 Total interest income for financial assets that are not at fair value through profit or loss is $3,421 million (30 September 2010: $3,384 million) for the Banking Group and $3,404 million (30 September 2010: $3,363 million) for the Bank.

2 Total interest expense for financial liabilities that are not at fair value through profit or loss is $2,048 million (30 September 2010: $2,074 million) for the Banking Group and $2,223 million (30 September 2010: $2,244 million) for the Bank.

Notes to the financial statements

Note 3 Non-interest income

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Fees and commissions				
Transaction fees and commissions	**210**	206	**206**	200
Lending fees (loan and risk)	**55**	46	**54**	46
Management fees received from related entities	**3**	2	**5**	4
Insurance commissions received	**30**	27	**30**	27
Other non-risk fee income	**1**	6	**2**	7
Total fees and commissions	**299**	287	**297**	284
Gains on ineffective hedges	**1**	3	**1**	3
Other non-interest income				
Net unrealised losses on derivatives held for risk management purposes	**(4)**	(4)	**(4)**	(4)
Dividend income	**3**	2	**-**	1
Gains/(losses) on disposal of property, plant and equipment	**7**	-	**(1)**	-
Other	**2**	3	**1**	2
Total other non-interest income	**8**	1	**(4)**	(1)
Total non-interest income	**308**	291	**294**	286

Note 4 Operating expenses

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Salaries and other staff expenses				
Salaries and wages	**334**	311	**332**	310
Employee entitlements	**7**	9	**7**	9
Superannuation costs:				
Defined contribution scheme	**23**	23	**23**	23
Defined benefit scheme (refer to Note 31)	**-**	(1)	**-**	(1)
Share-based payments	**15**	2	**15**	2
Restructuring costs	**3**	-	**3**	-
Other	**10**	10	**10**	10
Total salaries and other staff expenses	**392**	354	**390**	353
Equipment and occupancy expenses				
Operating lease rentals:				
Related entities	**-**	-	**82**	82
Other	**60**	55	**7**	5
Depreciation:				
Leasehold improvements	**10**	13	**-**	1
Furniture and equipment	**12**	10	**4**	4
Equipment repairs and maintenance	**7**	11	**3**	2
Electricity, water and rates	**2**	2	**-**	-
Other	**6**	4	**1**	-
Total equipment and occupancy expenses	**97**	95	**97**	94
Other expenses				
Software amortisation costs	**42**	43	**42**	43
Non-lending losses	**2**	5	**2**	5
Consultancy fees and other professional services	**70**	52	**68**	51
Auditors' remuneration (refer to Note 5)	**2**	2	**2**	2
Stationery	**12**	11	**12**	10
Postage and freight	**17**	16	**17**	16
Advertising	**28**	25	**28**	25
Training	**4**	4	**4**	4
Travel	**10**	8	**10**	8
Outsourcing	**80**	74	**80**	74
Related entities – management fees (refer to Note 26)	**6**	8	**9**	9
Other	**9**	7	**6**	6
Total other expenses	**282**	255	**280**	253
Total operating expenses	**771**	704	**767**	700

The Banking Group made donations of $1 million during the year ended 30 September 2011 (30 September 2010: $1 million).

Note 5 Auditors' remuneration

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $'000	Year Ended 30 September 2010 $'000	**Year Ended 30 September 2011 $'000**	Year Ended 30 September 2010 $'000
Auditor of the parent entity				
Audit and review of financial report	**966**	1,085	**789**	952
Other audit related work[1]	**138**	138	**138**	138
Other assurance services[2]	**367**	501	**367**	501
Total audit and other assurance services	**1,471**	1,724	**1,294**	1,591
Taxation compliance and advice	**30**	20	**30**	20
Other services[3]	**318**	64	**302**	53
Total non-audit fees	**348**	84	**332**	73
Total remuneration for audit and non-audit services	**1,819**	1,808	**1,626**	1,664

1 Sarbanes-Oxley reporting to the Ultimate Parent Bank Group.
2 Primarily assurance provided on certain financial information, including the issue of comfort letters in relation to debt issuance programmes.
3 Assurance and advisory services relating to other regulatory and compliance matters.

It is the Banking Group's policy to engage the external auditors on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with the Banking Group is important.

All amounts disclosed above are GST exclusive.

Note 6 Impairment charges on loans

	The Banking Group				The Bank			
	Year ended 2011				**Year ended 2011**			
	Residential Mortgages $m	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**	**Residential Mortgages $m**	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**
Collectively assessed provisions	**(14)**	**(35)**	**(33)**	**(82)**	**(15)**	**(34)**	**(33)**	**(82)**
Individually assessed provisions	**80**	**-**	**187**	**267**	**80**	**-**	**187**	**267**
Bad debt write-off direct to the income statement	**5**	**44**	**23**	**72**	**5**	**41**	**23**	**69**
Interest adjustments	**(6)**	**(12)**	**(15)**	**(33)**	**(4)**	**(10)**	**(15)**	**(29)**
Total impairment charges on loans	**65**	**(3)**	**162**	**224**	**66**	**(3)**	**162**	**225**

	The Banking Group				The Bank			
	Year ended 2010				Year ended 2010			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Collectively assessed provisions	38	44	(30)	52	31	43	(30)	44
Individually assessed provisions	83	-	172	255	83	-	172	255
Bad debt write-off direct to the income statement	9	54	6	69	9	51	6	66
Interest adjustments	(5)	(18)	(19)	(42)	(5)	(17)	(19)	(41)
Total impairment charges on loans	125	80	129	334	118	77	129	324

Notes to the financial statements

Note 7 Income tax expense

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Income tax expense				
Current tax:				
Current year	**145**	184	**136**	178
Prior year adjustments	**(2)**	3	**(2)**	3
Deferred tax (refer to Note 16):				
Current year – impact of change in tax rate	**9**	6	**8**	5
Current year – other	**44**	(58)	**46**	(57)
Prior year adjustments	**1**	(3)	**1**	(3)
Total income tax expense	**197**	132	**189**	126
Profit before income tax expense	**630**	418	**602**	398
Tax calculated at tax rate of 30%	**189**	125	**181**	119
Impact of change in tax rate on deferred tax	**9**	6	**8**	5
Expenses not deductible for tax purposes	**-**	1	**-**	1
Prior year adjustments	**(1)**	-	**(1)**	-
Other items	**-**	-	**1**	1
Total income tax expense	**197**	132	**189**	126

The balance of the dividend withholding payment account as at 30 September 2011 was nil (30 September 2010: nil) and there was no movement during the year ended 30 September 2011 (30 September 2010: nil).

In May 2010 the New Zealand Government enacted a reduction in company tax rates from 30% to 28%, which will apply to the Bank and Banking Group from 1 October 2011. Accordingly, the deferred taxes have been remeasured at 28% to the extent that the underlying temporary differences are expected to reverse from 1 October 2011 onwards. As a result of this change in tax rate, the Bank and Banking Group recorded additional deferred tax expenses of $8 million and $9 million, respectively, in the income statement, for the year ended 30 September 2011.

Note 8 Imputation credit account

	The Banking Group		The Bank	
	Year Ended 30 September 2011 $m	Year Ended 30 September 2010 $m	**Year Ended 30 September 2011 $m**	Year Ended 30 September 2010 $m
Balance at beginning of the year	**372**	276	**358**	258
Transfers	**-**	(25)	**-**	(22)
Imputation credits attached to dividends received	**2**	-	**-**	-
Imputation credits attached to dividends paid	**(1)**	(4)	**-**	-
Income tax payments	**151**	125	**149**	122
Balance at end of the year	**524**	372	**507**	358

The availability of imputation credits is contingent on the Ultimate Parent Bank meeting the shareholder continuity rules. As a result of the merger of the Ultimate Parent Bank with St.George Bank Limited during the year ended 30 September 2009 there had been a possibility that some of the credits may have been forfeited. This matter has now been resolved and no imputation credits have been forfeited.

Note 9 Due from other financial institutions

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Loans and advances to other banks	**699**	3	**699**	-
Total due from other financial institutions	**699**	3	**699**	-
Due from other financial institutions:				
At call	**670**	3	**670**	-
Term	**29**	-	**29**	-
Total due from other financial institutions	**699**	3	**699**	-
Amounts expected to be recovered within 12 months	**699**	3	**699**	-
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total due from other financial institutions	**699**	3	**699**	-

Note 10 Trading securities

	The Banking Group			The Bank		
	2011 $m	2010 $m	2009 $m	**2011 $m**	2010 $m	2009 $m
Trading securities						
Listed:						
NZ Government securities	**1,035**	1,381	2,369	**1,035**	1,381	2,369
Total listed securities	**1,035**	1,381	2,369	**1,035**	1,381	2,369
Unlisted:						
NZ corporate securities:						
Certificates of deposit	**2,007**	1,206	2,052	**2,007**	1,206	2,052
Corporate bonds	**209**	-	-	**209**	-	-
NZ Government securities	**10**	-	-	**10**	-	-
Total unlisted securities	**2,226**	1,206	2,052	**2,226**	1,206	2,052
Total trading securities	**3,261**	2,587	4,421	**3,261**	2,587	4,421
Amounts expected to be recovered within 12 months	**3,042**	2,587	4,421	**3,042**	2,587	4,421
Amounts expected to be recovered after 12 months	**219**	-	-	**219**	-	-
Total trading securities	**3,261**	2,587	4,421	**3,261**	2,587	4,421

As at 30 September 2011 no trading securities in the Banking Group and the Bank (30 September 2010: nil, 30 September 2009: nil) were encumbered through repurchase agreements.

As at 30 September 2011 the Banking Group held no tax exempt securities (30 September 2010: nil, 30 September 2009: nil). A tax exempt security is a US security for which the income produced is free from federal, state and local taxes. Most US tax exempt securities come in the form of municipal bonds, which represent obligations of a state, territory or municipality.

Trading securities increased $674 million in the year ended 30 September 2011 due to the purchase of certificates of deposits.

Trading securities decreased $1,834 million in the year ended 30 September 2010 due to a $988 million reduction in holdings of government securities (which were used to fund the repayment of maturing certificates of deposit issued) and an $846 million reduction in certificates of deposit held, in accordance with the Reserve Bank's new BS13 liquidity requirements.

Maturity profile of trading securities

	The Banking Group					
	1 Year or Less $m	**After 1 Year to 5 Years $m**	**After 5 Years to 10 Years $m**	**After 10 Years $m**	**Total $m**	**Weighted Average Yield %**
As at 30 September 2011						
NZ Government securities	**1,035**	**-**	**-**	**-**	**1,035**	**2.47**
Certificates of deposit	**2,007**	**-**	**-**	**-**	**2,007**	**2.77**
Corporate bonds and NZ public securities	**-**	**169**	**50**	**-**	**219**	**4.12**
Total trading securities	**3,042**	**169**	**50**	**-**	**3,261**	
As at 30 September 2010						
NZ Government securities	1,381	-	-	-	1,381	2.95
Certificates of deposit	1,206	-	-	-	1,206	3.12
Total trading securities	2,587	-	-	-	2,587	
As at 30 September 2009						
NZ Government securities	2,369	-	-	-	2,369	2.74
Certificates of deposit	2,052	-	-	-	2,052	2.79
Total trading securities	4,421	-	-	-	4,421	

Book value and market value of debt securities > 10% of equity

The Banking Group has total holdings of debt securities from three (30 September 2010: two, 30 September 2009: one) financial institutions, each rated AA by Standard & Poor's at 30 September 2011, the aggregate book and market value of which was $1,867 million (30 September 2010: $1,027 million, 30 September 2009: $1,237 million). Each of these holdings exceeded 10% of the Banking Group's total equity as at such date.

Note 11 Available-for-sale securities

	The Banking Group			The Bank		
	2011 $m	2010 $m	2009 $m	**2011 $m**	2010 $m	2009 $m
Listed securities						
NZ Government securities	**1,302**	-	-	**1,302**	-	-
Overseas debt securities	**166**	-	-	**166**	-	-
Overseas public securities	**50**	44	37	**50**	44	37
Total available-for-sale securities	**1,518**	44	37	**1,518**	44	37
Amounts expected to be recovered within 12 months	**61**	-	-	**61**	-	-
Amounts expected to be recovered after 12 months	**1,457**	44	37	**1,457**	44	37
Total available-for-sale securities	**1,518**	44	37	**1,518**	44	37

As at 30 September 2011 no available-for-sale securities were pledged as collateral for Banking Group liabilities (30 September 2010: nil, 30 September 2009: nil).

Note 12 Loans

	The Banking Group				The Bank			
	2011 $m	2010 $m	2009 $m	2008 $m	**2011 $m**	2010 $m	2009 $m	2008 $m
Overdrafts	**945**	1,003	1,056	1,140	**945**	1,003	1,056	1,140
Credit card outstandings	**1,270**	1,250	1,182	1,149	**1,197**	1,176	1,113	1,079
Money market loans	**571**	590	574	594	**571**	590	574	594
Term loans:								
Housing	**35,086**	34,249	32,587	31,353	**35,022**	34,171	32,494	31,241
Non-housing	**13,743**	13,386	12,985	12,603	**13,733**	13,375	12,985	12,603
Other	**208**	285	310	256	**208**	285	310	256
Total gross loans	**51,823**	50,763	48,694	47,095	**51,676**	50,600	48,532	46,913
Provisions for impairment charges on loans	**(573)**	(729)	(520)	(300)	**(569)**	(725)	(517)	(296)
Total net loans	**51,250**	50,034	48,174	46,795	**51,107**	49,875	48,015	46,617
Amounts expected to be recovered within 12 months	**6,567**	7,087	6,936	6,762	**6,497**	6,928	6,924	6,645
Amounts expected to be recovered after 12 months	**44,683**	42,947	41,238	40,033	**44,610**	42,947	41,091	39,972
Total net loans	**51,250**	50,034	48,174	46,795	**51,107**	49,875	48,015	46,617

On 22 November 2010, Westpac NZ Covered Bond Limited ('**WNZCBL**') was incorporated, as part of the Banking Group's global covered bond programme, to hold a portion of the Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by WSNZL. WSNZL is an indirect, wholly-owned subsidiary company of the Bank. Each guarantee provided by WNZCBL is secured by the housing loans from time to time held by WNZCBL. As at 30 September 2011, the value of the assets held by WNZCBL (being the underlying collateral for those guarantees) was $2.75 billion (30 September 2010: nil). These assets have not been derecognised from the Bank's financial statements in accordance with the accounting policies outlined in Note 1. During the year ended 30 September 2011, WSNZL issued €1 billion ($1.8 billion) of covered bonds during its initial offer under this programme, with a maturity date of 16 June 2016.

The repurchase cash amount of the Banking Group's repurchase agreements with the Reserve Bank using residential mortgage-backed securities issued by Westpac NZ Securitisation Limited ('**WNZSL**') as at 30 September 2011 was nil (30 September 2010: nil, 30 September 2009: $1,814 million, 30 September 2008: nil) with no underlying securities (30 September 2010: nil, 30 September 2009: $2,253 million, 30 September 2008: nil), provided under the arrangement.

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

The Banking Group has no loans or other receivables in New Zealand dollars or other foreign currencies outstanding to borrowers in foreign countries, referred to as cross-border outstandings, that equal or exceed 0.75% of the Banking Group's total assets as at 30 September 2011 (30 September 2010: nil, 30 September 2009: nil, 30 September 2008: nil).

Note 12 Loans (continued)

Maturities of loans and sensitivities of loans to changes in interest rates

The following table shows the Banking Group's contractual maturity distribution of all loans.

	The Banking Group			
	1 Year or Less $m	1 Year to 5 Years $m	After 5 Years $m	Total $m
As at 30 September 2011				
Overdrafts	**813**	**126**	**6**	**945**
Credit card outstandings	**1,259**	**11**	**-**	**1,270**
Money market loans	**571**	**-**	**-**	**571**
Term loans:				
Housing	**408**	**815**	**33,863**	**35,086**
Non-housing	**3,809**	**7,719**	**2,215**	**13,743**
Other	**135**	**73**	**-**	**208**
Total gross loans	**6,995**	**8,744**	**36,084**	**51,823**
Provisions for impairment charges on loans	**(428)**	**(73)**	**(72)**	**(573)**
Total net loans	**6,567**	**8,671**	**36,012**	**51,250**
As at 30 September 2010				
Overdrafts	895	95	13	1,003
Credit card outstandings	1,238	12	-	1,250
Money market loans	386	204	-	590
Term loans:				
Housing	479	862	32,908	34,249
Non-housing	4,517	6,430	2,439	13,386
Other	153	132	-	285
Total gross loans	7,668	7,735	35,360	50,763
Provisions for impairment charges on loans	(581)	(80)	(68)	(729)
Total net loans	7,087	7,655	35,292	50,034

The following table shows the interest rate segmentation of gross loans where the principal is contractually due after one year from the reporting date.

	The Banking Group					
	2011			2010		
	Loans at Variable Interest Rates $m	Loans at Fixed Interest Rates[1] $m	Total $m	Loans at Variable Interest Rates $m	Loans at Fixed Interest Rates[1] $m	Total $m
Interest rate segmentation of gross loans maturing after one year:						
NZ market	**17,357**	**27,471**	**44,828**	12,496	30,599	43,095
US market	**44,828**	**-**	**44,828**	43,095	-	43,095

1 In the US market 'loans at fixed interest rates' refers to loans with interest rates that are fixed for the entire term of the loans (i.e. a 25-year fixed loan). In the New Zealand market 'loans at fixed interest rates' refers to loans that are fixed for all or for a portion of the term of the loans (i.e. a six-month fixed loan, five-year fixed loan, etc). The above table therefore discloses the required interest rate segmentation according to the conventions in both the US and NZ markets.

Loan concentrations

The following table provides an analysis of the concentration of the Banking Group's loan portfolio by borrower category. The relevant categorisation for the Banking Group is by industry sector as these borrowers are engaged in similar activities and would be similarly impacted by economic conditions.

	The Banking Group	
Analysis of loans by industry sector	**2011 $m**	2010 $m
Accommodation, cafes and restaurants	**534**	533
Agriculture	**5,718**	5,568
Construction	**1,240**	1,357
Finance and insurance	**939**	873
Forestry and fishing	**142**	137
Government, administration and defence	**512**	527
Manufacturing	**1,296**	1,291
Mining	**69**	76
Property	**8,741**	8,720
Property services and business services	**1,646**	1,505
Services	**2,313**	2,317
Trade	**2,468**	2,352
Transport and storage	**776**	773
Utilities	**212**	222
Retail lending	**25,136**	24,416
Other	**81**	96
Total gross loans	**51,823**	50,763
Provisions for impairment on loans	**(573)**	(729)
Total net loans	**51,250**	50,034

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans

	The Banking Group				The Bank			
	2011				2011			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Neither past due nor impaired								
Strong	-	-	2,248	2,248	-	-	2,248	2,248
Good/Satisfactory	33,696	1,618	10,189	45,503	33,632	1,554	10,189	45,375
Weak	-	-	1,414	1,414	-	-	1,414	1,414
Total neither past due nor impaired	33,696	1,618	13,851	49,165	33,632	1,554	13,851	49,037
Past due assets								
Less than 30 days past due	933	96	323	1,352	933	91	312	1,336
At least 30 days but less than 60 days past due	114	19	42	175	114	17	42	173
At least 60 days but less than 90 days past due	52	10	19	81	52	10	19	81
At least 90 days past due	95	16	145	256	95	15	145	255
Total past due assets[1]	1,194	141	529	1,864	1,194	133	518	1,845
Individually impaired assets[2]								
Balance at beginning of the year	302	-	440	742	302	-	440	742
Additions	316	-	497	813	316	-	497	813
Amounts written off	(103)	-	(277)	(380)	(103)	-	(277)	(380)
Returned to performing or repaid	(320)	-	(62)	(382)	(320)	-	(62)	(382)
Balance at end of the year	195	-	598	793	195	-	598	793
Restructured assets								
Balance at beginning of the year	-	-	-	-	-	-	-	-
Additions	1	-	-	1	1	-	-	1
Balance at end of the year	1	-	-	1	1	-	-	1
Total impaired assets	196	-	598	794	196	-	598	794
Total gross loans[3]	35,086	1,759	14,978	51,823	35,022	1,687	14,967	51,676
Individually assessed provisions								
Balance at beginning of the year	80	-	221	301	80	-	221	301
Impairment charges on loans:								
New provisions	110	-	203	313	110	-	203	313
Recoveries	(20)	-	(10)	(30)	(20)	-	(10)	(30)
Reversal of previously recognised impairment charges on loans	(10)	-	(6)	(16)	(10)	-	(6)	(16)
Amounts written off	(98)	-	(254)	(352)	(98)	-	(254)	(352)
Interest adjustments	2	-	6	8	2	-	6	8
Balance at end of the year	64	-	160	224	64	-	160	224
Collectively assessed provisions								
Balance at beginning of the year	80	104	273	457	80	100	273	453
Impairment movement on loans	(14)	(35)	(33)	(82)	(15)	(34)	(33)	(82)
Balance at end of the year	66	69	240	375	65	66	240	371
Total provisions for impairment charges on loans and credit commitments	130	69	400	599	129	66	400	595
Provision for credit commitments (refer to Note 21)	-	-	(26)	(26)	-	-	(26)	(26)
Total provisions for impairment charges on loans	130	69	374	573	129	66	374	569
Total net loans	34,956	1,690	14,604	51,250	34,893	1,621	14,593	51,107

As at 30 September 2011, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual[4], past due, restructured or potential problem loans[4], if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.
2 The Bank and Banking Group had an undrawn balance of $6 million on individually impaired assets under loans for business purposes as at 30 September 2011.
3 The Bank and Banking Group did not have other assets under administration or any financial, real estate or other assets acquired through security reinforcement as at 30 September 2011.
4 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US SEC reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans (continued)

	The Banking Group				The Bank			
	2010				2010			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Neither past due nor impaired								
Strong	-	-	2,421	2,421	-	-	2,421	2,421
Good/Satisfactory	32,739	1,565	9,480	43,784	32,661	1,499	9,480	43,640
Weak	-	-	1,701	1,701	-	-	1,690	1,690
Total neither past due nor impaired	32,739	1,565	13,602	47,906	32,661	1,499	13,591	47,751
Past due assets								
Less than 30 days past due	916	103	300	1,319	916	97	300	1,313
At least 30 days but less than 60 days past due	118	23	81	222	118	22	81	221
At least 60 days but less than 90 days past due	77	11	89	177	77	11	89	177
At least 90 days past due	97	20	280	397	97	19	280	396
Total past due assets[1]	1,208	157	750	2,115	1,208	149	750	2,107
Individually impaired assets[2]								
Balance at beginning of the year	351	-	319	670	351	-	319	670
Additions	383	-	446	829	383	-	446	829
Amounts written off	(78)	-	(50)	(128)	(78)	-	(50)	(128)
Returned to performing or repaid	(354)	-	(275)	(629)	(354)	-	(275)	(629)
Balance at end of the year	302	-	440	742	302	-	440	742
Restructured assets								
Balance at beginning of the year	-	-	1	1	-	-	1	1
Deletions	-	-	(1)	(1)	-	-	(1)	(1)
Balance at end of the year	-	-	-	-	-	-	-	-
Total impaired assets	302	-	440	742	302	-	440	742
Total gross loans[3]	34,249	1,722	14,792	50,763	34,171	1,648	14,781	50,600
Individually assessed provisions								
Balance at beginning of the year	66	-	84	150	66	-	84	150
Impairment charges on loans:								
New provisions	105	-	201	306	105	-	201	306
Recoveries	(14)	-	-	(14)	(14)	-	-	(14)
Reversal of previously recognised impairment charges on loans	(8)	-	(29)	(37)	(8)	-	(29)	(37)
Amounts written off	(69)	-	(44)	(113)	(69)	-	(44)	(113)
Interest adjustments	-	-	9	9	-	-	9	9
Balance at end of the year	80	-	221	301	80	-	221	301
Collectively assessed provisions								
Balance at beginning of the year	42	60	303	405	42	57	303	402
Impairment movement on loans	38	44	(30)	52	31	43	(30)	44
Provisions on securitised loans	-	-	-	-	7	-	-	7
Balance at end of the year	80	104	273	457	80	100	273	453
Total provision for impairment charges on loans and credit commitments	160	104	494	758	160	100	494	754
Provision for credit commitments (refer to Note 21)	-	-	(29)	(29)	-	-	(29)	(29)
Total provisions for impairment charges on loans	160	104	465	729	160	100	465	725
Total net loans	34,089	1,618	14,327	50,034	34,011	1,548	14,316	49,875

As at 30 September 2010, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual[4], past due, restructured or potential problem loans[4], if such assets were loans.

1 Past due assets are not impaired assets.
2 The Bank and the Banking Group had an undrawn balance of $2 million on individually impaired assets under loans for business purposes as at 30 September 2010.
3 The Bank and the Banking Group did not have other assets under administration or any financial, real estate or other assets acquired through security reinforcement as at 30 September 2010.
4 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US SEC reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Note 14 Goodwill and other intangible assets

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Goodwill				
Cost	**477**	477	**477**	477
Accumulated impairment	**-**	-	**-**	-
Net carrying amount of goodwill	**477**	477	**477**	477
Computer software				
Cost	**314**	272	**314**	272
Accumulated amortisation and impairment	**(224)**	(182)	**(224)**	(182)
Net carrying amount of computer software	**90**	90	**90**	90
Total goodwill and other intangible assets	**567**	567	**567**	567

	The Banking Group			The Bank		
	Goodwill $m	Computer Software $m	Total $m	Goodwill $m	Computer Software $m	Total $m
Net carrying amount as at 1 October 2010	**477**	**90**	**567**	**477**	**90**	**567**
Additions	**-**	**44**	**44**	**-**	**44**	**44**
Disposals	**-**	**(2)**	**(2)**	**-**	**(2)**	**(2)**
Amortisation	**-**	**(42)**	**(42)**	**-**	**(42)**	**(42)**
Net carrying amount as at 30 September 2011	**477**	**90**	**567**	**477**	**90**	**567**
Net carrying amount as at 1 October 2009	477	98	575	477	98	575
Additions	-	35	35	-	35	35
Amortisation	-	(43)	(43)	-	(43)	(43)
Net carrying amount as at 30 September 2010	477	90	567	477	90	567

Goodwill is allocated to and tested at least annually for impairment as a part of its identified CGUs. The operating segment of Retail Banking is the CGU to which the goodwill has been allocated.

The recoverable amount of the CGU is determined annually based on value-in-use calculations. These calculations were last performed at 30 September 2011. These calculations use discounted cash flow projections based on an approved three-year strategic business plan. While the strategic business plan assumes certain economic conditions, the forecast is not reliant on one particular assumption. These business forecasts applied by management are considered appropriate as they are based on past experience and are consistent with observable current market information. The growth rates after 2014 are assumed to be zero for all CGUs for the purpose of goodwill impairment testing. The discount rate used is the before tax equivalent of the Banking Group's cost of capital of 15.3% as at 30 September 2011 (30 September 2010: 15.7%).

A reasonably possible change in these key assumptions would not cause the CGU's carrying amount to exceed its recoverable amount.

Note 15 Property, plant and equipment

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Leasehold improvements				
Cost	**216**	198	**-**	1
Accumulated depreciation and impairment	**(106)**	(104)	**-**	(1)
Net carrying amount of leasehold improvements	**110**	94	**-**	-
Furniture and equipment				
Cost	**158**	183	**45**	87
Accumulated depreciation and impairment	**(114)**	(150)	**(30)**	(68)
Net carrying amount of furniture and equipment	**44**	33	**15**	19
Total property, plant and equipment	**154**	127	**15**	19

	The Banking Group			The Bank		
	Leasehold Improvements $m	Furniture and Equipment $m	Total $m	Leasehold Improvements $m	Furniture and Equipment $m	Total $m
Net carrying amount as at 1 October 2010	**94**	**33**	**127**	**-**	**19**	**19**
Additions	**30**	**25**	**55**	**-**	**1**	**1**
Disposals	**(4)**	**(2)**	**(6)**	**-**	**(1)**	**(1)**
Depreciation	**(10)**	**(12)**	**(22)**	**-**	**(4)**	**(4)**
Net carrying amount as at 30 September 2011	**110**	**44**	**154**	**-**	**15**	**15**
Net carrying amount as at 1 October 2009	67	25	92	1	8	9
Additions	40	19	59	-	16	16
Disposals	-	(1)	(1)	-	(1)	(1)
Depreciation	(13)	(10)	(23)	(1)	(4)	(5)
Net carrying amount as at 30 September 2010	94	33	127	-	19	19

Property, plant and equipment under construction

Property, plant and equipment includes leasehold improvements in the Banking Group with a carrying value of $15 million (30 September 2010: $28 million) that are under construction.

Note 16 Deferred tax assets

	The Banking Group 2011 $m	The Banking Group 2010 $m	The Bank 2011 $m	The Bank 2010 $m
Deferred tax assets are attributable to the following:				
Property, plant and equipment	**7**	7	**(4)**	(4)
Provision for impairment charges on loans	**168**	222	**166**	221
Provision for employee entitlements	**26**	25	**26**	25
Other temporary differences	**(7)**	3	**(12)**	(1)
Balance at end of the year	**194**	257	**176**	241
To be recovered within 12 months	**134**	177	**126**	165
To be recovered after 12 months	**60**	80	**50**	76
Balance at end of the year	**194**	257	**176**	241
Movements				
Balance at beginning of the year	**257**	196	**241**	183
Prior year adjustments (refer to Note 7)	**(1)**	3	**(1)**	3
(Charged)/credited to the income statement (refer to Note 7)	**(44)**	58	**(46)**	57
(Charged)/credited to equity	**(3)**	3	**(3)**	3
Other temporary differences	**(6)**	3	**(7)**	-
Change to corporate tax rate (refer to Note 7)	**(9)**	(6)	**(8)**	(5)
Balance at end of the year	**194**	257	**176**	241
The deferred tax charge in the income tax expense comprises the following temporary differences:				
Property, plant and equipment	**-**	3	**-**	2
Provision for impairment charges on loans	**(54)**	56	**(55)**	55
Provision for employee entitlements	**1**	(2)	**1**	(2)
Other temporary differences	**(1)**	(2)	**(1)**	-
Total deferred tax charge	**(54)**	55	**(55)**	55
The deferred tax charge in equity comprises the following temporary differences:				
Cash flow hedges	**(8)**	(5)	**(8)**	(5)
Provision for employee entitlements	**5**	8	**5**	8
Total deferred tax charge	**(3)**	3	**(3)**	3

As at 30 September 2011, the aggregate temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised were nil (30 September 2010: nil).

Note 17 Other assets

	The Banking Group 2011 $m	The Banking Group 2010 $m	The Bank 2011 $m	The Bank 2010 $m
Accrued interest receivable	**113**	119	**112**	119
Trade debtors and prepayments	**29**	13	**12**	12
Account fees and commissions receivable	**2**	2	**2**	2
Other	**4**	9	**3**	9
Total other assets	**148**	143	**129**	142
Amounts expected to be recovered within 12 months	**148**	143	**129**	142
Amounts expected to be recovered after 12 months	**-**	-	**-**	-
Total other assets	**148**	143	**129**	142

Note 18 Due to other financial institutions

	The Banking Group 2011 $m	The Banking Group 2010 $m	The Bank 2011 $m	The Bank 2010 $m
Interbank deposits	**100**	-	**100**	-
Total due to other financial institutions	**100**	-	**100**	-
Due from other financial institutions:				
At call	**100**	-	**100**	-
Total due to other financial institutions	**100**	-	**100**	-
Amounts expected to be settled within 12 months	**100**	-	**100**	-
Amounts expected to be settled after 12 months	**-**	-	**-**	-
Total due to other financial institutions	**100**	-	**100**	-

Note 19 Deposits

	The Banking Group			The Bank		
	2011 $m	2010 $m	2009 $m	**2011 $m**	2010 $m	2009 $m
Deposits at fair value						
Certificates of deposit	**1,556**	1,902	3,468	**1,556**	1,902	3,468
Call and term deposits	**35**	88	180	**35**	88	180
Total deposits at fair value	**1,591**	1,990	3,648	**1,591**	1,990	3,648
Deposits at amortised cost						
Non-interest bearing, repayable at call	**2,699**	2,410	2,219	**2,699**	2,410	2,219
Other interest bearing:						
At call	**11,403**	10,294	10,619	**11,403**	10,294	10,619
Term	**19,193**	17,772	16,009	**18,697**	17,455	15,993
Total deposits at amortised cost	**33,295**	30,476	28,847	**32,799**	30,159	28,831
Total deposits	**34,886**	32,466	32,495	**34,390**	32,149	32,479
Amounts expected to be settled within 12 months	**32,979**	31,531	30,972	**32,506**	31,217	30,956
Amounts expected to be settled after 12 months	**1,907**	935	1,523	**1,884**	932	1,523
Total deposits	**34,886**	32,466	32,495	**34,390**	32,149	32,479

Average deposit balances and average rates paid by type of deposits

	The Banking Group For the Year Ended 30 September					
	2011		2010		2009	
	Average Balance $m	**Average Rate %**	Average Balance $m	Average Rate %	Average Balance $m	Average Rate %
New Zealand						
Certificates of deposit	**2,097**	**2.96**	2,849	2.84	4,369	5.01
Non-interest bearing, repayable at call	**2,553**	**N/A**	2,341	N/A	2,119	N/A
Other interest bearing:						
At call	**10,864**	**2.78**	10,531	2.69	12,758	2.85
Term	**18,549**	**4.65**	17,078	4.52	13,846	6.19
Total New Zealand	**34,063**	**3.60**	32,799	3.46	33,092	4.35
Other overseas	-	-	-	-	-	-
Total deposits	**34,063**	**3.60**	32,799	3.46	33,092	4.35

Maturity profile of deposits in excess of $100,000

Certificates of deposit are issued for a minimum of $100,000. The maturity profile of certificates of deposit and term deposits greater than $100,000 issued by the Banking Group were as follows.

	The Banking Group				
	Up to 3 Months $m	**More Than 3 Months to 6 Months $m**	**More Than 6 Months to 1 Year $m**	**Over 1 Year $m**	**Total $m**
30 September 2011					
Certificates of deposit in excess of $100,000	**1,449**	**97**	**10**	**-**	**1,556**
Term deposits in excess of $100,000	**7,243**	**3,504**	**1,116**	**1,227**	**13,090**
30 September 2010					
Certificates of deposit in excess of $100,000	1,719	167	16	-	1,902
Term deposits in excess of $100,000	5,940	3,599	1,885	641	12,065
30 September 2009					
Certificates of deposit in excess of $100,000	3,150	210	104	4	3,468
Term deposits in excess of $100,000	6,162	3,044	1,231	1,065	11,502

As at 30 September 2011, 2010 and 2009, there were no certificates of deposit or term deposits issued by foreign offices that were greater than $100,000.

Note 20 Debt issues

	The Banking Group			The Bank		
	2011 $m	2010 $m	2009 $m	**2011 $m**	2010 $m	2009 $m
Short-term debt						
Commercial paper	**7,229**	6,546	6,027	**-**	-	-
Total short-term debt	**7,229**	6,546	6,027	**-**	-	-
Long-term debt						
Non-domestic medium-term notes	**8,803**	6,711	4,139	**-**	-	-
Domestic medium-term notes	**1,598**	2,182	2,203	**1,598**	2,182	2,203
Total long-term debt	**10,401**	8,893	6,342	**1,598**	2,182	2,203
Total debt issues	**17,630**	15,439	12,369	**1,598**	2,182	2,203
Debt issues at amortised cost	**9,903**	8,893	6,287	**1,598**	2,182	2,203
Debt issues at fair value	**7,727**	6,546	6,082	**-**	-	-
Total debt issues	**17,630**	15,439	12,369	**1,598**	2,182	2,203
Amounts expected to be settled within 12 months	**9,992**	7,179	6,767	**295**	632	310
Amounts expected to be settled after 12 months	**7,638**	8,260	5,602	**1,303**	1,550	1,893
Total debt issues	**17,630**	15,439	12,369	**1,598**	2,182	2,203

As at 30 September 2011, the Banking Group and the Bank had New Zealand Government guaranteed debt on issue of $4,073 million and $674 million (30 September 2010: $4,141 million and $665 million, 30 September 2009: $4,129 million and $673 million) respectively. For further information on New Zealand Government guaranteed debt refer to Guarantee arrangements on page 4.

Short-term debt

The following table sets out details of the Banking Group's US and Euro commercial paper short-term debt as at 30 September 2011, 2010 and 2009.

	The Banking Group		
	2011 $m	2010 $m	2009 $m
US commercial paper			
Outstanding at year end	**7,229**	6,201	5,335
Approximate weighted average interest rate on the outstanding balance (%)	**0.31**	0.37	0.32
Maximum amount outstanding at any month end	**7,494**	9,032	5,889
Approximate average amount outstanding	**6,497**	7,376	4,060
Approximate weighted average interest rate on the average amount outstanding (%)	**0.35**	0.34	1.45
Euro commercial paper			
Outstanding at year end	**-**	345	692
Approximate weighted average interest rate on the outstanding balance (%)	**N/A**	1.62	0.54
Maximum amount outstanding at any month end	**776**	2,559	4,579
Approximate average amount outstanding	**343**	743	2,135
Approximate weighted average interest rate on the average amount outstanding (%)	**0.93**	0.74	1.87
Total short-term debt	**7,229**	6,546	6,027

Note 21 Provisions

	The Banking Group and the Bank				
	Long Service Leave $m	**Annual Leave and Other Staff Benefits $m**	**Non-lending Losses $m**	**Impairment on Credit Commitments $m**	**Total $m**
Balance as at 1 October 2010	**7**	**36**	**1**	**29**	**73**
Additional provisions recognised	**-**	**14**	**2**	**-**	**16**
Utilised during the year	**-**	**(15)**	**(1)**	**(3)**	**(19)**
Balance as at 30 September 2011	**7**	**35**	**2**	**26**	**70**
Balance as at 1 October 2009	7	32	2	35	76
Additional provisions recognised	1	11	5	-	17
Utilised during the year	(1)	(7)	(6)	(6)	(20)
Balance as at 30 September 2010	7	36	1	29	73

Provisions represent costs the Banking Group and the Bank expect to incur as a result of past events, where the timing of payment is uncertain. Provisions expected to be utilised beyond 12 months as at 30 September 2011 are $33 million (30 September 2010: $37 million) for the Banking Group and the Bank.

Note 22 Other liabilities

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Accrued interest payable	**325**	325	**242**	264
Credit card loyalty programme	**30**	27	**30**	27
Retirement benefit deficit (refer to Note 31)	**57**	47	**57**	47
Trade creditors and other accrued expenses	**78**	89	**77**	80
Other	**79**	53	**66**	49
Total other liabilities	**569**	541	**472**	467
Amounts expected to be settled within 12 months	**488**	494	**391**	420
Amounts expected to be settled after 12 months	**81**	47	**81**	47
Total other liabilities	**569**	541	**472**	467

Note 23 Perpetual subordinated notes

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

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Perpetual subordinated notes	**970**	970	**970**	970
Total perpetual subordinated notes	**970**	970	**970**	970

Note 24 Priority of financial liabilities in the event of liquidation

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

Note 25 Share capital

Ordinary shares fully paid

	The Banking Group		The Bank	
	2011 Number of Issued Shares	2010 Number of Issued Shares	**2011 Number of Issued Shares**	2010 Number of Issued Shares
Balance at beginning of the year	**3,470,001,000**	3,470,001,000	**3,470,001,000**	3,470,001,000
Shares issued during the year	**-**	-	**-**	-
Balance at end of the year	**3,470,001,000**	3,470,001,000	**3,470,001,000**	3,470,001,000
	$m	$m	**$m**	$m
Balance at beginning of the year	**3,470**	3,470	**3,470**	3,470
Shares issued during the year	**-**	-	**-**	-
Balance at end of the year	**3,470**	3,470	**3,470**	3,470

B Voting shares fully paid

	The Banking Group		The Bank	
	2011 Number of Issued Shares	2010 Number of Issued Shares	**2011 Number of Issued Shares**	2010 Number of Issued Shares
Balance at beginning and end of the year	**20,000**	20,000	**20,000**	20,000
	$m	$m	**$m**	$m
Balance at beginning and end of the year	**0.02**	0.02	**0.02**	0.02

Ordinary shares

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

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Dividends paid by the Bank on the ordinary shares for the year ended 30 September 2011 were nil (30 September 2010: nil). Dividends paid per ordinary share by the Bank for the year ended 30 September 2011 were nil (30 September 2010: nil).

Note 25 Share capital (continued)

On 4 August 2011, the Directors resolved to issue 900 million ordinary shares, which remained unpaid and unissued at 30 September 2011 (refer to Note 41.1 for further details).

Also refer to Note 41.1 for details of a dividend paid by the Bank, and ordinary shares issued by the Bank, to its immediate parent company.

B Voting shares

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

Note 26 Related entities

Banking Group

The Bank is a controlled entity of WNZGL. The Ultimate Parent Bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all of its controlled entities. As at 30 September 2011 the Bank had the following controlled entities:

Name of Entity	Principal Activity	Notes
Westpac NZ Operations Limited	Holding company	
Aotearoa Financial Services Limited[1]	Non-trading company	
Number 120 Limited	Finance company	Incorporated 11 February 2010
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51% owned
Westpac NZ Covered Bond Holdings Limited	Holding company	9.5% owned[2]
Westpac NZ Covered Bond Limited	Guarantor	9.5% indirectly owned[2]
Westpac (NZ) Investments Limited	Property leasing company	
Westpac NZ Leasing Limited	Finance company	Incorporated 6 September 2011[3]
Westpac NZ Securitisation Holdings Limited	Holding company	9.5% owned[4]
Westpac NZ Securitisation Limited	Funding company	9.5% indirectly owned[4]
Westpac Securities NZ Limited	Funding company	
Westpac Term PIE Fund	Portfolio investment entity	

1 On 30 June 2011, Westpac NZ Operations Limited ('**WNZO**') acquired 100% of the shares issued by Aotearoa Financial Services Limited ('**AFS**') from Westpac Capital-NZ-Limited (a wholly-owned subsidiary of the Ultimate Parent Bank). AFS is a non-trading entity. The transfer did not have a significant impact on the Banking Group's financial position and results of operations.

2 Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, WNZCBL, were incorporated on 22 November 2010. The Banking Group, through its subsidiary, WNZO, has a qualifying interest of 9.5% in WNZCBHL. The Bank is considered to control both WNZCBHL and WNZCBL based on contractual arrangements put in place, and as such both WNZCBHL and WNZCBL are consolidated within the financial statements of the Banking Group.

3 Westpac NZ Leasing Limited ('**WNZLL**') was incorporated on 6 September 2011. WNZLL did not have a significant impact on the Banking Group's financial position as at 30 September 2011 or the results of operations for the year ended 30 September 2011.

4 Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary company, WNZSL, were incorporated on 14 October 2008. The Banking Group, through its subsidiary WNZO, has a qualifying interest of 9.5% in WNZSHL. The Bank is considered to control both WNZSHL and WNZSL based on contractual arrangements put in place, and as such both WNZSHL and WNZSL are consolidated within the financial statements of the Banking Group.

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the Banking Group have a reporting date of 30 September and are incorporated in New Zealand, except Term PIE which has a reporting date of 31 March.

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

Investment in associate

The Bank holds 15% of Cards NZ Limited's equity plus one Visa Inc access preference share issued by Cards NZ Limited.

	The Banking Group	
	2011 $m	2010 $m
Balance at beginning of the year	**48**	48
Dividends received	**(1)**	(1)
Equity share of net profit	**1**	1
Balance at end of the year	**48**	48

Nature of transactions

The Banking Group has intragroup transactions with members of the Ultimate Parent Bank Group on commercial terms, including the provision of management and administrative services and data processing facilities. Such transactions are not considered to be material either individually or in aggregate.

Loan finance and current account banking facilities are provided by the Bank and the Ultimate Parent Bank to members of the Banking Group on normal commercial terms. The interest paid on these loans and the interest earned on these deposits is at market rates.

Transactions with the Ultimate Parent Bank

Management fees are paid by the Bank to the Ultimate Parent Bank for management and administration services (consisting of salaries and other head office expenses) provided by the Ultimate Parent Bank. The total amount charged by the Ultimate Parent Bank for the year ended 30 September 2011 was $6 million (30 September 2010: $8 million).

The Bank pays subvention payments to members of the Ultimate Parent Bank's New Zealand group for the use of tax losses. The total payment made by the Bank for the year ended 30 September 2011 was nil (30 September 2010: nil). Payments made for tax loss transfers between members of the Ultimate Parent Bank's New Zealand group are determined having regard to the circumstances of the entities and the value of the tax losses.

Note 26 Related entities (continued)

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Bank. The Bank receives commission from these sales. Commission received for the year ended 30 September 2011 was $4 million (30 September 2010: $4 million).

Transactions with controlled entities of the Banking Group

In October 2008, WNZSL was set up as part of WNZL's internal mortgage-backed securitisation programme. Under this programme WNZL sold home loans to WNZSL (refer to Note 34).

Rental expenses are paid by the Bank to Westpac (NZ) Investments Limited. The total charge for the year ended 30 September 2011 was $82 million (30 September 2010: $82 million). WSNZL provides offshore funding to the Bank. Management fees are paid by the Bank for these services. Management fees paid for the year ended 30 September 2011 were $3 million (30 September 2010: $1 million).

The Bank guarantees all payment obligations in respect of debt securities issued by controlled entities of the Banking Group, other than WNZSL.

Management fees are paid by members of the Banking Group for certain operating costs incurred by the Bank. Management fees paid to the Bank for the year ended 30 September 2011 were $5 million (30 September 2010: $4 million).

Transactions with other controlled entities of the Ultimate Parent Bank

Managed fund products are sold by the Bank on behalf of members of the Ultimate Parent Bank Group. The Bank receives commission from these sales. Commission received for the year ended 30 September 2011 was $5 million (30 September 2010: $5 million).

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

Life and general insurance products are sold by the Bank on behalf of the Ultimate Parent Bank Group. The Bank receives commission on these sales. Life and general insurance commissions received for the year ended 30 September 2011 were $21 million and $9 million (30 September 2010: $18 million and $9 million), respectively.

Refer to Note 23 for perpetual subordinated notes held by related entities.

Transactions with associates

In 2008, the Banking Group purchased Visa Inc shares from Cards NZ Limited at fair value totalling $48 million. The purchase was satisfied through the issue of an interest bearing promissory note. $1 million interest was paid on the promissory note during the year ended 30 September 2011 (30 September 2010: $1 million).

Due from and to related entities

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Due from related entities				
Parent companies[1]	**1,459**	825	**1,459**	764
Controlled entities of the Banking Group	**-**	-	**8,000**	7,562
Other members of the Overseas Banking Group	**58**	5	**52**	5
Total due from related entities	**1,517**	830	**9,511**	8,331
Amounts expected to be recovered within 12 months	**1,517**	830	**1,724**	792
Amounts expected to be recovered after 12 months	**-**	-	**7,787**	7,539
Total due from related entities	**1,517**	830	**9,511**	8,331
Due to related entities				
Parent companies[1]	**1,758**	1,580	**1,635**	1,507
Controlled entities of the Banking Group	**-**	-	**24,734**	21,224
Other members of the Overseas Banking Group	**-**	-	**-**	-
Associates of the Banking Group	**48**	48	**48**	48
Total due to related entities	**1,806**	1,628	**26,417**	22,779
Amounts expected to be settled within 12 months	**1,806**	1,628	**12,331**	8,530
Amounts expected to be settled after 12 months	**-**	-	**14,086**	14,249
Total due to related entities	**1,806**	1,628	**26,417**	22,779

1 Parent companies include the Ultimate Parent Bank (including the NZ Branch) and all intermediate parent companies of the Bank.

Other group investments

The Banking Group had significant non-controlling shareholdings in the following New Zealand based entities as at 30 September 2011:

Name	Shares Held by	Beneficial Interest	Nature of Business
Paymark Limited	Westpac NZ Operations Limited	25%	EFTPOS Settlements
Interchange and Settlement Limited	Westpac NZ Operations Limited	14%	Payments processing clearing house
Payments NZ Limited	Westpac New Zealand Limited	23%	Payments system

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

The total carrying amount of the Banking Group's significant non-controlling shareholdings in the above investments, and their contribution to the results of the Banking Group, are not material either individually or in aggregate.

The Bank acquired 23% of the shares of Payments NZ Limited on 1 October 2010. Payments NZ Limited owns the governance framework for the New Zealand payments system. The consideration paid for these shares was not material to the Bank or the Banking Group.

Note 27 Derivative financial instruments

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

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

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

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

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

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

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

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

The Banking Group uses derivatives as an end-user as part of its asset and liability management activities. Derivatives with related parties are included in due from/due to related entities.

Hedging

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

Fair value hedges

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

For the Banking Group and the Bank, the change in the fair value of hedging instruments designated as fair value hedges for the year ended 30 September 2011 was a $81 million gain (30 September 2010: $378 million gain) while the change in the fair value of the hedged items, attributed to the hedge risk for the year ended 30 September 2011 was an $80 million loss (30 September 2010: $374 million loss).

Cash flow hedges

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits and term deposits, using swaps. The Banking Group also hedges exposure to foreign currency principal and interest cash flows from floating-rate medium-term debt issuance through the use of cross-currency derivatives.

Dual fair value and cash flow hedges

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

Derivatives held with external counterparties

	The Banking Group and The Bank		
		2011	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	**307**	**12**	**-**
Total held for trading derivatives	**307**	**12**	**-**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**1,336**	**-**	**(84)**
Foreign exchange derivatives			
Swaps[1]	**1,766**	**73**	**-**
Total fair value hedging derivatives	**3,102**	**73**	**(84)**
Total derivatives	**3,409**	**85**	**(84)**

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

	The Banking Group and The Bank		
		2010	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Swaps	418	17	-
Total held for trading derivatives	418	17	-
Total derivatives	418	17	-

Note 27 Derivative financial instruments (continued)

Derivatives held with related entities

	The Banking Group and The Bank		
		2011	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Forwards	**6,585**	**1**	**(1)**
Swaps	**2,211**	**1**	**(66)**
Foreign exchange derivatives			
Swaps	**8,617**	**390**	**(125)**
Total held for trading derivatives	**17,413**	**392**	**(192)**
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	**6,402**	**-**	**(122)**
Foreign exchange derivatives			
Swaps[1]	**5,750**	**48**	**(767)**
Total fair value hedging derivatives	**12,152**	**48**	**(889)**
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	**8,594**	**134**	**(96)**
Foreign exchange derivatives			
Swaps	**319**	**20**	**(7)**
Total cash flow hedging derivatives	**8,913**	**154**	**(103)**
Total derivatives	**38,478**	**594**	**(1,184)**

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

	The Banking Group and The Bank		
		2010	
	Notional $m	Fair Value Asset $m	Fair Value (Liability) $m
Held for trading derivatives			
Interest rate derivatives			
Forwards	26,280	6	(14)
Swaps	543	-	(6)
Foreign exchange derivatives			
Swaps	7,093	2	(271)
Total held for trading derivatives	33,916	8	(291)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	5,700	-	(275)
Foreign exchange derivatives			
Swaps[1]	5,950	22	(505)
Total fair value hedging derivatives	11,650	22	(780)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	9,785	90	(141)
Foreign exchange derivatives			
Swaps	311	9	(6)
Total cash flow hedging derivatives	10,096	99	(147)
Total derivatives	55,662	129	(1,218)

1 Included within foreign exchange swaps are derivatives designated in both cash flow and fair value hedge relationships under the dual designation strategy.

Note 27 Derivative financial instruments (continued)

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

	The Banking Group and The Bank							
	2011							
	Less Than 1 Month %	**1 Month to 3 Months %**	**3 Months to 1 Year %**	**1 Year to 2 Years %**	**2 Years to 3 Years %**	**3 Years to 4 Years %**	**4 Years to 5 Years %**	**Over 5 Years %**
Cash inflows (assets)	**1**	**5**	**23**	**53**	**11**	**2**	**2**	**3**
Cash outflows (liabilities)	**2**	**9**	**21**	**52**	**9**	**2**	**2**	**3**

	The Banking Group and The Bank							
	2010							
	Less Than 1 Month %	1 Month to 3 Months %	3 Months to 1 Year %	1 Year to 2 Years %	2 Years to 3 Years %	3 Years to 4 Years %	4 Years to 5 Years %	Over 5 Years %
Cash inflows (assets)	2	6	19	19	40	9	1	4
Cash outflows (liabilities)	2	8	21	20	37	8	1	3

For the year ended 30 September 2011, the cash flow hedges recognised due to hedge ineffectiveness was nil (30 September 2010: $1 million loss) in the Banking Group and the Bank.

For the year ended 30 September 2011, a $1 million gain on fair value hedges was recognised due to hedge ineffectiveness (30 September 2010: $4 million gain) in the Banking Group and the Bank.

Note 28 Fair value of financial instruments

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimates derived using present values or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

NZ IFRS 7 *Financial Instruments: Disclosure* requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. Fair value for financial instruments has been determined as follows:

Certain short-term financial instruments

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

Trading securities

For trading securities, the fair values, which are also the carrying amounts, are based on quoted market prices. Where a quoted price is not available, the fair value of such instruments is determined by applying a discounted cash flow approach that uses a discount rate which reflects the terms of such instruments and the timing of cash flows.

Floating rate financial instruments

For floating rate financial instruments, including variable rate loans, with no significant change in credit risk, the carrying amount is a reasonable estimate of fair value.

Due from other financial institutions and fixed rate loans

The fair values for amounts due from other financial institutions with maturities of three months or more and fully performing fixed rate loans have been estimated by reference to current rates at which similar advances would be made to financial institutions and other borrowers with a similar credit rating and the same remaining maturities. For amounts due from other financial institutions with maturities of less than three months the carrying value is a reasonable estimate of fair value.

Due to other financial institutions, deposits and debt issues

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

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

Perpetual subordinated notes

Perpetual subordinated notes are carried at amortised cost, which approximates the fair value as these are floating rate notes.

Exchange rate and interest rate contracts

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

Other financial assets and liabilities

For all other financial assets and liabilities the carrying amount approximates fair value. These items are either short-term in nature, reprice frequently or are of a high credit rating.

Note 28 Fair value of financial instruments (continued)

Interest rates used for determining fair value

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

	The Banking Group and the Bank 2011 %	2010 %
Loans	**2.68 - 7.94**	3.12 - 9.28
Deposits	**0.15 - 7.85**	0.08 - 7.85
Debt issues	**0.01 - 3.91**	0.09 - 4.52

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

The Banking Group

2011

	Classified at Fair Value through Profit or Loss: Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	**1,215**	-	-	**1,215**	**1,215**
Due from other financial institutions	-	-	-	**699**	-	-	**699**	**699**
Derivative financial instruments	**12**	-	**73**	-	-	-	**85**	**85**
Trading securities	**3,261**	-	-	-	-	-	**3,261**	**3,261**
Available-for-sale securities	-	-	-	-	**1,518**	-	**1,518**	**1,518**
Loans	-	-	-	**51,250**	-	-	**51,250**	**51,418**
Due from related entities	-	-	-	**1,517**	-	-	**1,517**	**1,517**
Other assets	-	-	-	**148**	-	-	**148**	**148**
Total financial assets	**3,273**	-	**73**	**54,829**	**1,518**	-	**59,693**	**59,861**
Financial liabilities								
Due to other financial institutions	-	-	-	-	-	**100**	**100**	**100**
Deposits	**1,591**	-	-	-	-	**33,295**	**34,886**	**34,965**
Derivative financial instruments	-	-	**84**	-	-	-	**84**	**84**
Debt issues	-	**7,727**	-	-	-	**9,903**	**17,630**	**17,259**
Other liabilities	-	-	-	-	-	**512**	**512**	**512**
Perpetual subordinated notes	-	-	-	-	-	**970**	**970**	**970**
Due to related entities	**(200)**	-	**790**	-	-	**1,216**	**1,806**	**1,806**
Total financial liabilities	**1,391**	**7,727**	**874**	-	-	**45,996**	**55,988**	**55,696**

The Banking Group

2010

	Classified at Fair Value through Profit or Loss: Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	522	-	-	522	522
Due from other financial institutions	-	-	-	3	-	-	3	3
Derivative financial instruments	17	-	-	-	-	-	17	17
Trading securities	2,587	-	-	-	-	-	2,587	2,587
Available-for-sale securities	-	-	-	-	44	-	44	44
Loans	-	-	-	50,034	-	-	50,034	50,195
Due from related entities	-	-	-	830	-	-	830	830
Other assets	-	-	-	143	-	-	143	143
Total financial assets	2,604	-	-	51,532	44	-	54,180	54,341
Financial liabilities								
Deposits	1,990	-	-	-	-	30,476	32,466	32,510
Debt issues	-	6,546	-	-	-	8,893	15,439	16,487
Other liabilities	-	-	-	-	-	494	494	494
Perpetual subordinated notes	-	-	-	-	-	970	970	970
Due to related entities	283	-	806	-	-	539	1,628	1,628
Total financial liabilities	2,273	6,546	806	-	-	41,372	50,997	52,089

Note 28 Fair value of financial instruments (continued)

The Bank

2011

	Classified at Fair Value through Profit or Loss: Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	1,215	-	-	1,215	1,215
Due from other financial institutions	-	-	-	699	-	-	699	699
Derivative financial instruments	12	-	73	-	-	-	85	85
Trading securities	3,261	-	-	-	-	-	3,261	3,261
Available-for-sale securities	-	-	-	-	1,518	-	1,518	1,518
Loans	-	-	-	51,107	-	-	51,107	51,275
Due from related entities	-	-	-	9,511	-	-	9,511	9,511
Other assets	-	-	-	129	-	-	129	129
Total financial assets	3,273	-	73	62,661	1,518	-	67,525	67,693
Financial liabilities								
Due to other financial institution	-	-	-	-	-	100	100	100
Deposits	1,591	-	-	-	-	32,799	34,390	34,468
Derivative financial instruments	-	-	84	-	-	-	84	84
Debt issues	-	-	-	-	-	1,598	1,598	1,653
Other liabilities	-	-	-	-	-	415	415	415
Perpetual subordinated notes	-	-	-	-	-	970	970	970
Due to related entities	(200)	7,924	790	-	-	17,903	26,417	26,417
Total financial liabilities	1,391	7,924	874	-	-	53,785	63,974	64,107

The Bank

2010

	Classified at Fair Value through Profit or Loss: Held for Trading $m	Designated upon Initial Recognition $m	Hedging $m	Loans and Receivables $m	Available-for-sale Financial Assets $m	Financial Liabilities at Amortised Cost $m	Total Carrying Amount $m	Estimated Fair Value $m
Financial assets								
Cash and balances with central banks	-	-	-	522	-	-	522	522
Derivative financial instruments	17	-	-	-	-	-	17	17
Trading securities	2,587	-	-	-	-	-	2,587	2,587
Available-for-sale securities	-	-	-	-	44	-	44	44
Loans	-	-	-	49,875	-	-	49,875	50,035
Due from related entities	-	-	-	8,331	-	-	8,331	8,331
Other assets	-	-	-	142	-	-	142	142
Total financial assets	2,604	-	-	58,870	44	-	61,518	61,678
Financial liabilities								
Deposits	1,990	-	-	-	-	30,159	32,149	32,193
Debt issues	-	-	-	-	-	2,182	2,182	3,232
Other liabilities	-	-	-	-	-	420	420	420
Perpetual subordinated notes	-	-	-	-	-	970	970	970
Due to related entities	283	6,544	806	-	-	15,146	22,779	22,918
Total financial liabilities	2,273	6,544	806	-	-	48,877	58,500	59,733

Note 28 Fair value of financial instruments (continued)

Fair valuation control framework

The Banking Group uses a well established Fair Valuation Control Framework to determine the fair value of financial assets and liabilities. The framework consists of policies and procedures that ensure the Banking Group is in compliance with relevant accounting, industry and regulatory standards. This framework includes details on the approach taken with respect to the revaluation of financial instruments, independent price verification, fair value adjustments and financial reporting.

The method of determining a fair value according to the Fair Valuation Control Framework falls into one of two main approaches:

- Mark-to-market: where the valuation uses independent unadjusted quoted market prices.
- Mark-to-model: where valuation techniques are used to determine the valuation.

Valuation techniques often require adjustments to ensure correct fair value representation. The Banking Group's valuation adjustments include:

- Credit valuation adjustment ('**CVA**'): Some market and model derived valuations assume similar credit quality for all counterparties. To correct for this assumption, a CVA is employed on the majority of derivative positions which reflects the market view of the counterparty credit risk. A derivative valuation adjustment ('**DVA**') is employed to adjust for the Banking Group's own credit risk. The Banking Group uses a Monte Carlo simulation methodology to calculate the expected future credit exposure for all derivative exposures including inputs regarding probabilities of default ('**PDs**') and loss given default ('**LGD**'). PDs are derived from market observed credit spreads by reference to credit default swap ('**CDS**') sector curves for the relevant tenors to calculate CVA, and the Ultimate Parent Bank's CDS curve for the relevant tenors to calculate DVA. PDs are then applied to the horizon of potential exposures to derive both the CVA and DVA.
- Bid-offer spreads adjustment: The fair value of financial assets and liabilities should reflect bid prices for assets and offer prices for liabilities. Prices are adjusted to reflect current bid-offer spreads.

The fair values of large holdings of financial instruments are based on a multiple of the estimated value of a single instrument and do not include block adjustments for the size of the holding.

Fair value hierarchy

The Banking Group categorises all fair value measurements according to the following fair value hierarchy:

- Quoted market price (Level 1)

  This valuation technique uses recent unadjusted quoted prices for identical assets or liabilities in active markets where the price represents actual and regularly occurring market transactions on an arm's length basis. Financial instruments included in this category are mainly investments in listed equity securities.
- Valuation technique using observable inputs (Level 2)

  This valuation technique is used for financial instruments where quoted market prices are not available so prices are derived from standard valuation models, and inputs to these models are directly observable. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other valuation techniques widely used and accepted by market participants. Financial instruments included in this category are mainly over the counter ('**OTC**') derivatives with observable market inputs and financial instruments with fair value derived from consensus pricing with sufficient contributors, including interest rate swaps and foreign currency swaps, and trading securities including government bonds and floating rate notes ('**FRN**').
- Valuation technique with significant non-observable inputs (Level 3)

  This valuation technique is used where at least one significant input is not observable and reliance is placed on reasonable assumptions based on market conditions. These estimates are calibrated against industry standards, economic models and observable transaction prices where possible. Financial instruments included in this category show illiquidity in the market. Some valuations rely on estimation from related markets or proxies.

  The Bank and the Banking Group did not hold any financial instruments in the Level 3 category as at 30 September 2011 (30 September 2010: nil).

Valuation techniques, valuation inputs and asset classification

A variety of valuation techniques are used to derive the fair value of each instrument. Mark-to-market is the preferred valuation technique for all products. However modelling techniques are used to derive fair value when markets are illiquid and prices not quoted. The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category is outlined below:

Interest rate derivatives

These are products with a pay-off linked to interest rates i.e. BKBM, London InterBank Offer Rate ('**LIBOR**') or inflation rates. These products include interest rate swaps, swaptions, caps, floors, collars and other complex interest rate derivatives. For these instruments, as market prices are unavailable, the Banking Group uses valuation models to derive fair value. The models are industry standard and mostly employ a Black-Scholes framework to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates such as BKBM and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such, the input parameters into the models are deemed market observable and therefore interest rate derivatives are categorised as Level 2 instruments.

Foreign exchange (FX) swaps, forwards and other FX derivatives

FX swaps and forwards are not traded on exchanges and are not generally liquid. FX swap and forward valuations are derived from consensus data providers. Both simple and complex derivatives are valued using industry standard models which revolve around a Black-Scholes framework. The inputs to the calculation include FX spot rates, interest rates and FX volatilities. These inputs are market observable or provided by consensus data providers and therefore FX swaps, forwards and other FX derivatives are categorised as Level 2 instruments.

Debt market products

Government bonds, commercial paper and notes generally do not have quoted market prices. The Banking Group uses valuation models to derive the fair value of these instruments. The valuation techniques are standard and mainly use a discounted cashflow approach. The main model inputs are observed instrument data used to derive the discount curves and therefore debt market products are classified as Level 2 instruments.

Note 28 Fair value of financial instruments (continued)

Certificates of deposit

The fair value of certificates of deposit use a discounted cashflow approach using market rates offered for deposits of similar remaining maturities and are therefore classified as Level 2 instruments.

Debt issues at fair value

Where a quoted price is not available the fair value of debt issues uses a discounted cashflow approach, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the applicable credit rating of the Banking Group. These instruments are therefore classified as Level 2 instruments.

Disclosure of fair value

Due to the number of different valuation models used and the underlying assumptions made regarding inputs selected, such as timing and amounts of future cash flows, discount rates, credit risk and volatility, it is often difficult to compare the fair value information disclosed here against fair value information disclosed by other financial institutions.

The fair values disclosed in this note represent estimates at which the instruments could be exchanged. However, the intention is to hold many of these instruments to maturity and thus it is possible that the realised amount may differ to the amounts disclosed in the tables below.

There were no material amounts of changes in fair value, estimated using a valuation technique but incorporating significant non-observable inputs, that were recognised in the income statements of the Banking Group and the Bank during the year ended 30 September 2011 (30 September 2010: no material changes in fair value).

There have been no significant transfers between Levels 1 and 2 during the year ended 30 September 2011 (30 September 2010: no significant transfers). There have also been no significant transfers into/out of Level 3 during the year ended 30 September 2011 (30 September 2010: no significant transfers).

The following tables summarise the basis for the determination of the fair values of financial instruments that are measured at fair value after initial recognition:

	The Banking Group			The Bank		
	2011			2011		
	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m
Financial assets						
Derivative financial instruments	-	**85**	**85**	-	**85**	**85**
Trading securities	-	**3,261**	**3,261**	-	**3,261**	**3,261**
Available-for-sale securities	**50**	**1,468**	**1,518**	**50**	**1,468**	**1,518**
Total financial assets carried at fair value	**50**	**4,814**	**4,864**	**50**	**4,814**	**4,864**
Financial liabilities						
Deposits	-	**1,591**	**1,591**	-	**1,591**	**1,591**
Derivative financial instruments	-	**84**	**84**	-	**84**	**84**
Debt issues at fair value	-	**7,727**	**7,727**	-	-	-
Due to related entities	-	**590**	**590**	-	**590**	**590**
Total financial liabilities carried at fair value	-	**9,992**	**9,992**	-	**2,265**	**2,265**

	The Banking Group			The Bank		
	2010			2010		
	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m	Quoted Market Prices $m	Valuation Techniques (Market Observable Inputs) $m	Total $m
Financial assets						
Derivative financial instruments	-	17	17	-	17	17
Trading securities	-	2,587	2,587	-	2,587	2,587
Available-for-sale securities	44	-	44	44	-	44
Total financial assets carried at fair value	44	2,604	2,648	44	2,604	2,648
Financial liabilities						
Deposits	-	1,990	1,990	-	1,990	1,990
Debt issues at fair value	-	6,546	6,546	-	-	-
Due to related entities	-	1,089	1,089	-	7,633	7,633
Total financial liabilities carried at fair value	-	9,625	9,625	-	9,623	9,623

Note 29 Commitments and contingent liabilities

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Commitments for capital expenditure				
Due within one year	**2**	30	**-**	-
Other expenditure commitments:				
One year or less	**89**	87	**89**	87
Between one and five years	**306**	102	**306**	102
Over five years	**34**	-	**34**	-
Total other expenditure commitments	**429**	189	**429**	189
Lease commitments (all leases are classified as operating leases)				
Premises and sites	**225**	205	**-**	-
Motor vehicles	**5**	6	**5**	6
Total lease commitments	**230**	211	**5**	6
Lease commitments are due as follows:				
One year or less	**45**	43	**3**	2
Between one and five years	**108**	94	**2**	4
Over five years	**77**	74	**-**	-
Total lease commitments	**230**	211	**5**	6
Other contingent liabilities and commitments				
Direct credit substitutes	**113**	77	**113**	77
Loan commitments with certain drawdown	**164**	105	**164**	105
Transaction-related contingent items	**257**	254	**257**	254
Short-term, self-liquidating trade-related contingent liabilities	**644**	758	**644**	758
Other commitments to provide financial services which have an original maturity of one year or more	**6,553**	5,925	**6,553**	5,925
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	**4,850**	4,487	**4,781**	4,349
Total other contingent liabilities and commitments	**12,581**	11,606	**12,512**	11,468

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 WNZSL (pursuant to its securitisation programme) where the securitised loans cease to conform to certain terms and conditions of the WNZSL securitisation programme;

(c) held by WNZCBL (pursuant to the WSNZL 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 the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect, wholly-owned subsidiary, WSNZL, the proceeds of which are immediately on-lent to the Bank. The aggregate amount of outstanding principal and interest as at 30 September 2011 was $15,945 million (30 September 2010: $13,201 million). As the proceeds of the debt issuances are immediately on-lent to the Bank, the aggregate amount guaranteed by the Bank is already reflected in the Bank's balance sheet as part of the amounts due to related entities.

In addition the Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 12 for further details).

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.

Note 29 Commitments and contingent liabilities (continued)

Westpac (NZ) Investments Limited ('**WNZIL**'), 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 WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 30 September 2011 was estimated to be $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 WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Other commitments

As at 30 September 2011, the Banking Group had commitments in respect of interest swap transactions, provision of credit, underwriting facilities and other engagements 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 (refer to Note 37). Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions to the extent that a provision has not been provided for under the Banking Group's usual practices.

Note 30 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 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 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;
- 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 are excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

	The Banking Group			
	2011			
	Business Banking $m	Consumer Banking $m	Reconciling Items $m	Total Consolidated $m
Revenue from external customers[1]	1,850	3,404	(1,346)	3,908
Internal revenue	4	1	(5)	-
Total segment revenue	1,854	3,405	(1,351)	3,908
Net interest income	472	755	89	1,316
Non-interest income	81	283	(56)	308
Net operating income	553	1,038	33	1,624
Depreciation	-	(2)	(20)	(22)
Software amortisation costs	-	-	(42)	(42)
Other operating expenses	(76)	(206)	(425)	(707)
Total operating expenses	(76)	(208)	(487)	(771)
Impairment charges on loans	(167)	(64)	7	(224)
Share of profit of associate accounted for using equity method	-	-	1	1
Profit/(loss) before income tax expense	310	766	(446)	630
Income tax expense	(90)	(214)	107	(197)
Profit/(loss) after income tax expense	220	552	(339)	433
Profit/(loss) after income tax expense attributable to:				
Owners of the Banking Group	220	548	(339)	429
Non-controlling interests	-	4	-	4
	220	552	(339)	433
Total gross loans	21,421	30,625	(223)	51,823
Total deposits	10,387	22,908	1,591	34,886

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

Note 30 Segment information (continued)

	The Banking Group			
	2010			
	Business Banking $m	Consumer Banking $m	Reconciling Items $m	Total Consolidated $m
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
Net interest income	414	660	90	1,164
Non-interest income	82	272	(63)	291
Net operating income	496	932	27	1,455
Depreciation	-	(2)	(21)	(23)
Software amortisation costs	-	-	(43)	(43)
Other operating expenses	(67)	(205)	(366)	(638)
Total operating expenses	(67)	(207)	(430)	(704)
Impairment charges on loans	(158)	(167)	(9)	(334)
Share of profit of associate accounted for using equity method	-	-	1	1
Profit/(loss) before income tax expense	271	558	(411)	418
Income tax expense	(82)	(156)	106	(132)
Profit/(loss) after income tax expense	189	402	(305)	286
Profit/(loss) 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 31 Superannuation commitments

The Banking Group has a hybrid (defined contribution and defined benefit) superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the scheme, are made by the Banking Group as required. The defined benefit scheme has been closed to new members since 1 April 1990. An actuarial valuation of the scheme is undertaken every three years, with the last actuarial assessment of the funding status undertaken as at 30 June 2011. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and contributions are currently being made to the defined benefit scheme at the rate of 12% (before employer's superannuation contribution tax) of members' salaries.

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

Amounts recognised in the financial statements arising from the Banking Group's obligations in respect of its defined benefit scheme are as follows:

	The Banking Group and the Bank	
	2011 $m	2010 $m
Benefit obligation at end of the year	**111**	108
Fair value of scheme assets at end of the year	**(73)**	(77)
Net recognised liability	**38**	31
Contribution tax	**19**	16
Net recognised liability including contribution tax	**57**	47
Movement in the net liability recognised in the balance sheet		
Opening liability with contribution tax	**47**	30
Superannuation expense with contribution tax	**-**	(1)
Employer contributions including contribution tax	**(5)**	(9)
Amount of losses recognised in equity with contribution tax	**15**	27
Closing liability with contribution tax	**57**	47
Net defined benefit expense recognised in the income statement		
Current service cost	**1**	1
Interest cost	**4**	3
Expected return of scheme assets	**(5)**	(5)
Net defined benefit expense	**-**	(1)
Change in present value of defined benefit obligation		
Benefit obligation at beginning of the year	**108**	96
Current service cost	**1**	1
Interest cost	**4**	3
Actuarial loss	**5**	17
Benefits paid	**(7)**	(8)
Exchange and other adjustments	**-**	(1)
Benefit obligation at end of the year	**111**	108
Change in fair value of scheme assets		
Fair value of scheme assets at beginning of the year	**77**	76
Expected return on scheme assets	**5**	5
Employer contributions	**3**	6
Actuarial loss	**(5)**	(2)
Benefits paid	**(7)**	(8)
Fair value of scheme assets at end of the year	**73**	77
Amounts recognised in equity		
Cumulative amount of loss recognised in equity at beginning of the year	**19**	-
Immediate recognition of loss	**10**	19
Cumulative amount of loss recognised in equity at end of the year	**29**	19
Value of scheme assets		
Invested in Ultimate Parent Bank's debt and equity securities	**10**	9
Actual return on scheme assets	**-**	3
Expected employer contributions (net)	**4**	4

	The Banking Group and the Bank	
	2011 %	2010 %
Primary actuarial assumptions used in the above calculations		
Discount rate	**3.2**	3.7
Expected return on scheme assets – active members (end of year)	**6.0**	6.0
Expected return on scheme assets – pensioners	**6.0**	6.0
Rate of increase in salaries	**3.5**	3.5
Rate of increase for pensions	**2.5**	2.5
Asset allocation		
Cash	**0.6**	0.9
Equity instruments	**55.0**	56.7
Debt instruments	**44.4**	42.4
Total asset allocation	**100.0**	100.0

Note 31 Superannuation commitments (continued)

	The Banking Group and the Bank				
	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Historical summary					
Defined benefit scheme obligations	**111**	108	96	117	110
Scheme assets	**(73)**	(77)	(76)	(74)	(99)
Net deficit	**38**	31	20	43	11
Experience adjustments on scheme assets	**(5)**	(2)	-	(23)	2
Experience adjustments on scheme liabilities	**(5)**	(17)	20	(10)	1

Expected rate of return on assets assumptions

The assumed return on assets reflects the average rate of earnings expected in the long-term on the scheme's assets. Accordingly this rate reflects allowances for tax and all investment expenses. The expected returns on assets were calculated as the weighted average return based on the benchmark asset allocation and estimates of the expected future return in each sector in each asset class (consistent with the inflation assumption).

Note 32 Key management personnel

Key management personnel compensation

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

	The Banking Group and the Bank	
	Year ended 30 September 2011 $'000	Year ended 30 September 2010 $'000
Salaries and other short-term benefits	**11,293**	9,287
Post-employment benefits	**892**	692
Other termination benefits	**763**	349
Share-based payments	**3,457**	3,736
Total key management compensation	**16,405**	14,064

The Directors have received remuneration from the Banking Group and these amounts are included in the table above.

Loans and deposits with key management personnel

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

As at 30 September 2011 no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2010: nil).

Other key management personnel transactions

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

Note 33 Share-based payments

Selected executives and senior managers of the Bank participate in the Ultimate Parent Bank's equity settled share-based compensation plans, which are the Westpac Reward Plan ('**WRP**'), the Westpac Performance Plan ('**WPP**') and the Senior Officers' Share Purchase Scheme ('**SOSPS**'). The Bank compensates the Ultimate Parent Bank for the equity granted to employees.

(i) Westpac Reward Plan

The WRP was approved by shareholders at the Ultimate Parent Bank's 2006 Annual General Meeting. It provides the Ultimate Parent Bank with a mechanism for rewarding superior long-term performance from the most senior management in Australia, New Zealand and other countries.

Under the WRP, senior managers may be invited to receive an award of performance share rights. The exercise price for performance share rights is nil. The share rights may vest over a three to five-year period from the commencement of the performance period, provided a performance hurdle of relative Total Shareholder Return ('**TSR**')[1] is met or exceeded by the Ultimate Parent Bank. The comparator group for TSR focuses on 10 Australian financial sector peers. Full vesting of performance share rights occurs when the Ultimate Parent Bank's TSR is at (or exceeds) the 75th percentile relative to the comparator group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance no vesting occurs.

For Banking Group employees, performance options with a three to five-year vesting period were granted under the WRP until March 2009 and these continue to run their course. The exercise price for the performance options was set at the time of invitation based on a five-day weighted average price of the ordinary shares of the Ultimate Parent Bank.

The WRP vesting framework has been designed to strengthen the performance link over the longer term. Initial TSR performance is tested at the third anniversary of the commencement of the performance period, with subsequent performance testing possible at the fourth and fifth anniversaries of commencement of the performance period. Securities vest only if the Ultimate Parent Bank's TSR ranking is at or above the median of the comparator group at a performance test date. TSR performance is tested at subsequent performance test dates (where they exist) and further vesting may occur only if the TSR ranking has improved. The model encourages executives to focus on performance over the full five-year period.

1 TSR measures a company's share price movement and accumulated dividend yields over a specific measurement period (i.e. the change in value of an investment in that company's shares) and excluding tax effects.

Note 33 Share-based payments (continued)

Performance share rights and performance options will lapse where an employee leaves the Ultimate Parent Bank Group before the securities vest due to resignation or dismissal, unless the Board determines otherwise.

Upon exercising vested performance options or performance share rights, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price of a performance option is payable at that time. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

WRP Performance options

The following table sets out the details of outstanding performance options granted to employees of the Banking Group and Bank under the WRP:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
17 December 2007	**17 December 2017**	**30.10**	**48,547**	**-**	**-**	**-**	**(1,438)**	**47,109**	**47,109**
1 October 2008	**1 October 2018**	**23.40**	**70,176**	**-**	**-**	**-**	**(11,801)**	**58,375**	**23,584**
1 March 2009	**1 March 2019**	**16.49**	**260,869**	**-**	**-**	**-**	**-**	**260,869**	**-**
Totals for the year ended 30 September 2011			**379,592**	**-**	**-**	**-**	**(13,239)**	**366,353**	**70,693**
Weighted average exercise price (A$)			**19.51**	**-**	**-**	**-**	**24.13**	**19.34**	**27.86**
Totals for the year ended 30 September 2010			425,935	(41,838)	-	-	(4,505)	379,592	3,766
Weighted average exercise price (A$)			20.35	27.00	-	-	23.40	19.51	23.40

The weighted average remaining contractual life of outstanding performance options at 30 September 2011 was 7.2 years (30 September 2010: 8.2 years).

WRP Performance share rights

The following table sets out the details of outstanding performance share rights granted to employees of the Banking Group and Bank under the WRP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
1 October 2009	**1 October 2019**	**49,596**	**504**	**-**	**-**	**(4,326)**	**45,774**	**-**
1 October 2010	**1 October 2020**	**-**	**(6,318)**	**67,024**	**-**	**-**	**60,706**	**-**
Totals for the year ended 30 September 2011		**49,596**	**(5,814)**	**67,024**	**-**	**(4,326)**	**106,480**	**-**
Totals for the year ended 30 September 2010		-	(3,385)	54,535	-	(1,554)	49,596	-

The weighted average fair value at the grant date of performance share rights issued during the year ended 30 September 2011 was A$12.68 per right (30 September 2010: A$15.31 per right). The weighted average remaining contractual life of outstanding performance share rights at 30 September 2011 was 8.6 years (30 September 2010: 9.0 years).

(ii) Westpac Performance Plan

For Banking Group employees the WPP is currently used to provide long-term incentive awards or as a mechanism for the mandatory deferral of a portion of their short-term incentive in the form of share rights. These share rights are restricted for a period of one to three years, and vest subject to service conditions. Vested share rights can then be exercised to receive the underlying fully paid ordinary shares in the Ultimate Parent Bank. The exercise price for share rights is nil.

For Banking Group employees, performance options with a three to five-year vesting period were granted under the WPP up until December 2006 and these continue to run their course. The exercise price for the performance options was set at the time of invitation based on a five-day weighted average price of the ordinary shares of the Ultimate Parent Bank.

Awards of options or share rights under the WPP have a life of up to ten years from the grant date. A share right or an option lapses if it is not exercised prior to the end of its life.

Performance options and performance share rights

Performance options and performance share rights granted under the WPP to Banking Group employees from 20 January 2003 to 15 December 2006 vest after a period of two to five years, but only if the performance hurdle has been met. The performance hurdle compares the Ultimate Parent Bank's TSR against the TSR of a defined ranking group of other companies.

- For grants made up to November 2005, the ranking group is the 50 largest companies listed on the ASX by market capitalisation at the commencement of the performance period (excluding the Ultimate Parent Bank, property and investment trusts and certain specified resource companies).
- For grants made from December 2005 to December 2006, 50% of the award is assessed against a TSR ranking group of the top 10 of the largest 13 Australian banking and financial sector companies by market capitalisation at the time of grant (excluding the Ultimate Parent Bank). The other 50% assesses TSR performance against a ranking group of the 50 largest companies on the ASX by market capitalisation at the time of grant (excluding the Ultimate Parent Bank, specified resource companies and the first ranking group).

Full vesting of performance options and performance share rights occurs when the Ultimate Parent Bank's relative TSR is at (or exceeds) the 75th percentile of the ranking group, scaling down to 50% vesting on a straight-line basis for median performance. In the event of below median performance, no vesting occurs.

Upon exercising vested performance options or performance share rights, the employee has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time. A performance option or a performance right lapses if it is not exercised prior to the end of its term.

Note 33 Share-based payments (continued)

WPP Performance options

The following table sets out the details of outstanding performance options granted to the employees of the Banking Group and the Bank under the WPP:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
21 January 2004	**21 January 2014**	**16.34**	**27,106**	**-**	**-**	**(27,106)**	**-**	**-**	**-**
20 January 2005	**20 January 2015**	**18.98**	**22,474**	**-**	**-**	**(22,474)**	**-**	**-**	**-**
20 December 2005	**20 December 2015**	**20.53**	**41,812**	**29,267**	**-**	**-**	**-**	**71,079**	**71,079**
15 December 2006	**15 December 2016**	**23.98**	**42,698**	**-**	**-**	**-**	**-**	**42,698**	**42,698**
Totals for the year ended 30 September 2011			**134,090**	**29,267**	**-**	**(49,580)**	**-**	**113,777**	**113,777**
Weighted average exercise price (A$)			**20.52**	**20.53**	**-**	**17.54**	**-**	**21.82**	**21.82**
Totals for the year ended 30 September 2010			155,439	(21,349)	-	-	-	134,090	134,090
Weighted average exercise price (A$)			21.00	23.98	-	-	-	20.52	20.52

The weighted average remaining contractual life of outstanding performance options at 30 September 2011 was 4.6 years (30 September 2010: 5.0 years). The weighted average share price of performance options exercised during the year ended 30 September 2011 was A$24.89 per right (30 September 2010: nil).

WPP Performance share rights

The following table sets out the details of outstanding performance share rights granted to the employees of the Banking Group and the Bank under the WPP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
20 January 2003	**20 January 2013**	**11,463**	**-**	**-**	**(11,463)**	**-**	**-**	**-**
21 January 2004	**21 January 2014**	**12,120**	**-**	**-**	**(6,110)**	**-**	**6,010**	**6,010**
20 January 2005	**20 January 2015**	**15,244**	**-**	**-**	**(5,468)**	**-**	**9,776**	**9,776**
20 December 2005	**20 December 2015**	**30,515**	**-**	**-**	**(17,422)**	**(50)**	**13,043**	**13,043**
15 December 2006	**15 December 2016**	**4,333**	**-**	**-**	**(4,333)**	**-**	**-**	**-**
Totals for the year ended 30 September 2011		**73,675**	**-**	**-**	**(44,796)**	**(50)**	**28,829**	**28,829**
Totals for the year ended 30 September 2010		118,900	-	-	(45,225)	-	73,675	72,009

The weighted average share price of performance share rights exercised during the year ended 30 September 2011 was A$23.27 (30 September 2010: A$25.63 per right). The weighted average remaining contractual life of outstanding performance share rights at 30 September 2011 was 3.5 years (30 September 2010: 4.3 years).

WPP Unhurdled share rights

The WPP is also used for key Banking Group employees who receive unhurdled share rights that vest after a set period of one to three years of service with the Ultimate Parent Bank Group. After the restriction period applying to them has passed, vested unhurdled share rights can be exercised to receive the underlying fully paid ordinary shares. The exercise price for share rights is nil.

Note 33 Share-based payments (continued)

The following tables summarise grants of unhurdled share rights to the employees of the Banking Group under the WPP:

Commencement Date	Latest Date for Exercise	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
15 December 2006	**15 December 2016**	**41,704**	**(1,886)**	**-**	**(20,118)**	**-**	**19,700**	**19,700**
2 April 2007	**2 April 2017**	**1,577**	**-**	**-**	**-**	**-**	**1,577**	**1,577**
3 September 2007	**3 September 2017**	**6,660**	**-**	**-**	**(6,660)**	**-**	**-**	**-**
17 December 2007	**17 December 2017**	**99,362**	**(3,303)**	**-**	**(65,216)**	**-**	**30,843**	**30,843**
1 July 2008	**1 July 2018**	**10,752**	**-**	**-**	**(4,032)**	**-**	**6,720**	**6,720**
1 September 2008	**1 September 2018**	**2,399**	**-**	**-**	**(2,399)**	**-**	**-**	**-**
1 October 2008	**1 October 2018**	**66,672**	**446**	**-**	**-**	**-**	**67,118**	**8,667**
1 December 2008	**1 December 2018**	**3,020**	**-**	**-**	**(3,020)**	**-**	**-**	**-**
1 January 2009	**1 January 2019**	**6,677**	**-**	**-**	**(6,677)**	**-**	**-**	**-**
1 February 2009	**1 February 2019**	**3,014**	**(3,014)**	**-**	**-**	**-**	**-**	**-**
1 March 2009	**1 March 2019**	**82,023**	**-**	**-**	**(82,023)**	**-**	**-**	**-**
1 June 2009	**1 June 2019**	**5,681**	**(5,681)**	**-**	**-**	**-**	**-**	**-**
1 October 2009	**1 October 2019**	**118,194**	**(7,882)**	**-**	**-**	**-**	**110,312**	**-**
1 November 2009	**1 November 2019**	**43,129**	**-**	**-**	**-**	**-**	**43,129**	**20,418**
1 January 2010	**1 January 2020**	**6,446**	**-**	**-**	**(5,372)**	**-**	**1,074**	**1,074**
1 October 2010	**1 October 2020**	**-**	**(1,487)**	**162,306**	**-**	**-**	**160,819**	**-**
1 December 2010	**1 December 2020**	**-**	**-**	**1,170**	**-**	**-**	**1,170**	**-**
1 January 2011	**1 January 2021**	**-**	**-**	**4,599**	**-**	**-**	**4,599**	**-**
1 April 2011	**1 April 2021**	**-**	**-**	**17,597**	**-**	**-**	**17,597**	**-**
1 August 2011	**1 August 2021**	**-**	**-**	**35,601**	**-**	**-**	**35,601**	**-**
Totals for the year ended 30 September 2011		**497,310**	**(22,807)**	**221,273**	**(195,517)**	**-**	**500,259**	**88,999**
Totals for the year ended 30 September 2010		474,638	2,839	170,762	(139,246)	(11,683)	497,310	79,206

The weighted average fair value at grant date of unhurdled share rights issued during the year ended 30 September 2011 was A$18.88 per right (30 September 2010: A$21.63 per right). The weighted average share price of unhurdled share rights exercised during the year ended 30 September 2011 was A$23.32 per right (30 September 2010: A$24.54 per right). The weighted average remaining contractual life of outstanding unhurdled share rights at 30 September 2011 was 8.2 years (30 September 2010: 8.1 years).

(iii) Senior Officers' Share Purchase Scheme

The SOSPS was approved by shareholders in December 1998. The plan was closed to new invitations in 2002.

The plan provided for the allocation of share options to selected executives and senior officers to acquire fully paid ordinary shares issued by the Ultimate Parent Bank. No consideration was payable for the grant of an option. The exercise price for each option was based on the prevailing market price of the ordinary shares at the time of the invitation, and the options have a ten-year life. Options granted under the SOSPS were subject to a tenure-based hurdle.

Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares upon payment of the exercise price. If an option is not exercised prior to the end of its term, it lapses.

The following table sets out details of outstanding options granted under the SOSPS:

Commencement Date	Latest Date for Exercise	Exercise Price A$	Outstanding at Beginning of the Year	Transfers During the Year	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at End of the Year	Outstanding and Exercisable at End of the Year
8 January 2001	**8 January 2011**	**13.26**	**45,000**	**-**	**-**	**(45,000)**	**-**	**-**	**-**
9 January 2002	**9 January 2012**	**14.65**	**40,000**	**-**	**-**	**(10,000)**	**-**	**30,000**	**30,000**
Totals for the year ended 30 September 2011			**85,000**	**-**	**-**	**(55,000)**	**-**	**30,000**	**30,000**
Weighted average exercise price (A$)			**13.91**	**-**	**-**	**13.51**	**-**	**14.65**	**14.65**
Totals for the year ended 30 September 2010			85,000	-	-	-	-	85,000	85,000
Weighted average exercise price (A$)			13.91	-	-	-	-	13.91	13.91

The weighted average share price of unhurdled share rights exercised during the year ended 30 September 2011 was A$22.78 per right (30 September 2010: nil). The weighted average remaining contractual life of options at 30 September 2011 under the SOSPS was 0.3 years (30 September 2010: 0.7 years).

Note 33 Share-based payments (continued)

Fair value at grant date

The fair value of performance share rights granted during the year ended 30 September 2011 included in the tables above have been independently calculated at grant date using a Binomial/Monte Carlo simulation pricing model and for which:

- the assumptions included in the valuation of the awards of performance share rights under the WRP include a risk free interest rate of 5.01%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5.0% and a volatility in the Ultimate Parent Bank's share price of 30%;
- the assumptions included in the valuation of the awards of unhurdled share rights under the WPP include a risk free interest rate ranging from 3.33% to 4.98%, a dividend yield on the Ultimate Parent Bank's ordinary shares of 5.0% to 7.5% and a volatility in the Ultimate Parent Bank's ordinary share price of 30%;
- volatility has been assessed by considering the implied volatility of publicly traded options over the Ultimate Parent Bank's ordinary shares and the historic volatility of the market price of the Ultimate Parent Bank's shares;
- other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and the Ultimate Parent Bank, which are used to assess the impact of performance hurdles; and
- performance share rights have been valued assuming they will be exercised shortly after the vesting date.

Note 34 Securitisation, funds management and other fiduciary activities

Securitisation

As at 30 September 2011 the Bank and the Banking Group had securitised loans amounting to $305 million (30 September 2010: $416 million), which had been sold by the Bank and the Banking Group to external parties being the HLT and the Westpac Mortgage Investment Fund ('**MIF**') via the HLT. HLT and MIF were established, pursuant to trust deeds between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the Bank. The purchase of these home loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Bank and the Banking Group receive fees for various services provided to HLT and MIF on an arm's length basis, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Bank and the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties.

The Bank has a $5.0 billion (30 September 2010: $7.5 billion) internal mortgage-backed securitisation programme. WNZSL issued residential mortgage-backed securities to fund the purchase of home loans from the Bank. Those securities are currently held by the Bank. The most senior rated securities (30 September 2011: $4.75 billion, 30 September 2010: $7.25 billion) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Holding a portion of mortgages in securitised format enables the Bank to maintain a readily available source of cash should market conditions become difficult. It takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer residential mortgage-backed securities (secured by residential mortgage assets from their own balance sheets) as collateral for the Reserve Bank's repurchase agreements.

Funds management and other fiduciary activities

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

The Term PIE is administered by the Banking Group (refer to Note 26 for further details) and invests in deposits with the Bank. The Bank is considered to control the Term PIE, and as such the Term PIE is consolidated within the financial statements of the Banking Group. As at 30 September 2011 $496 million (30 September 2010: $316 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 (refer to Note 37) will help minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the year ended 30 September 2011:

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

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 year ended 30 September 2011 (30 September 2010: nil).

In October 2008 and December 2008 the Banking Group provided funding to WNZSL, a member of the Banking Group involved in securitisation activities. This funding was provided on an intraday basis to facilitate the purchase of mortgages from the Bank in order to establish mortgage-backed securities under the internal mortgage-backed securitisation described above. This was completed in two tranches of $5.0 billion and $2.5 billion respectively.

Note 34 Securitisation, funds management and other fiduciary activities (continued)

At all times during the year ended 30 September 2011 and the year ended 30 September 2010, the Banking Group has not provided any funding to WNZSL, a member of the Banking Group involved in securitisation activities. The peak end-of-day aggregate amount of funding provided to WNZSL, (which is also the peak end-of-day aggregate amount of funding provided to all entities conducting the activities described in this Note), during the year ended 30 September 2011 was nil (30 September 2010: nil), and the peak end-of-day aggregate amount of funding provided to WNZSL expressed as percentage of the amount of WNZSL's assets was nil (30 September 2010: nil). The peak end-of-day aggregate amount of funding provided to all entities conducting the activities described above expressed as percentage of the Banking Group's Tier One Capital was nil (30 September 2010: nil).

For this purpose, peak ratio information was derived by determining the maximum end-of-day aggregate amount of funding over the relevant twelve-month period and then dividing that amount by the amount of WNZSL's total assets or the Banking Group's Tier One Capital (as the case required) as at 30 September 2011 (as at 30 September 2010 for the comparative period).

Note 35 Insurance business

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

Note 36 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 year ended 30 September 2011 the Banking Group complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Banking Group's capital management are to ensure the Banking Group complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Banking Group manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Three independent processes, undertaken by Directors and senior management of the Bank, are designed to ensure that the Banking Group's capital is adequate to support its current and future activities:

1. The Board has approved a risk appetite statement. This statement outlines the target debt rating, target capital ratios and the degree of earnings volatility that is acceptable. Capital ratios are set at a higher level than required by the regulator, which both reduces the risk of breaching the conditions of registration and provides investor confidence. The Banking Group actively monitors its capital adequacy as part of the Banking Group internal capital adequacy assessment process ('**ICAAP**') and reports this on a regular basis to senior management and the Board.
2. The Banking Group calculates the capital required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('**BSR**'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements are made.

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.

Note 36 Capital adequacy (continued)

Banking Group capital summary

	The Banking Group 2011 Unaudited $m	The Banking Group 2010 Unaudited $m
Tier One Capital		
Issued and fully paid up ordinary share capital	**3,470**	3,470
Revenue and similar reserves[1]	**599**	308
Current year's retained profits	**419**	264
Minority interests	**8**	6
Less deductions from Tier One Capital		
Goodwill	**(477)**	(477)
Other intangible assets	**(90)**	(90)
Cash flow hedge reserve	**(20)**	1
Deferred tax asset deduction	**(71)**	(70)
Expected loss excess over eligible allowance	**(61)**	(6)
Total Tier One Capital	**3,777**	3,406
Tier Two Capital		
Upper Tier Two Capital		
Perpetual subordinated notes	**970**	970
B Voting shares	**-**	-
Total Upper – Tier Two Capital	**970**	970
Less deductions from Tier Two Capital		
Expected loss excess over eligible allowance	**(61)**	(6)
Lower Tier Two Capital	**-**	-
Total Tier Two Capital	**909**	964
Total Capital	**4,686**	4,370

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 Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group 2011 Unaudited %	The Banking Group 2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	**10.5**	9.9
Total Capital ratio	**13.0**	12.7
Reserve Bank minimum ratios		
Tier One Capital ratio[1]	**4.0**	4.0
Total Capital ratio	**8.0**	8.0

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

Banking Group Pillar I total capital requirement

	2011 Total Exposure After Credit Risk Mitigation Unaudited $m	2011 Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited $m	2011 Total Capital Requirement Unaudited $m	2010 Total Exposure After Credit Risk Mitigation Unaudited $m	2010 Risk-weighted Exposure or Implied Risk-weighted Exposure Unaudited $m	2010 Total Capital Requirement Unaudited $m
Credit risk						
Exposures subject to the internal ratings based approach	**65,590**	**26,925**	**2,154**	60,147	22,563	1,805
Equity exposures	**50**	**150**	**12**	44	132	11
Specialised lending subject to the slotting approach	**4,188**	**4,230**	**338**	4,288	4,876	390
Exposures subject to the standardised approach	**2,827**	**998**	**80**	1,706	734	59
Total credit risk	**72,655**	**32,303**	**2,584**	66,185	28,305	2,265
Operational risk	**N/A**	**2,964**	**237**	N/A	3,480	278
Market risk	**N/A**	**863**	**69**	N/A	988	80
Supervisory adjustment	**N/A**	**-**	**-**	N/A	1,606	128
Total	**72,655**	**36,130**	**2,890**	66,185	34,379	2,751

Note 36 Capital adequacy (continued)

Pillar II capital for other material risk

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

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

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

	The Banking Group	
	2011 Unaudited $m	2010 Unaudited $m
Internal capital allocation		
Other material risk	**363**	352

Basel I

The table below is disclosed in accordance with Clause 16 of Schedule 11 to 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 or trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

	The Bank	
	2011 Unaudited %	2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	**8.1**	7.6
Total Capital ratio	**10.2**	9.8

Ultimate Parent Bank Group Basel II capital adequacy ratios

	2011 Unaudited %	2010 Unaudited %
Ultimate Parent Bank Group[1]		
Tier One Capital ratio	**9.7**	9.1
Total Capital ratio	**11.0**	11.0
Ultimate Parent Bank (Extended Licensed Entity)[1, 2]		
Tier One Capital ratio	**9.6**	9.2
Total Capital ratio	**11.4**	11.5

1 The capital ratios represent information mandated by APRA.

2 The capital ratios of the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Basel II Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

Basel II came into effect on 1 January 2008. The Ultimate Parent Bank Group is accredited by APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the Advanced Measurement Approach ('**AMA**') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as Basel II (internal models based) approach. With this accreditation the Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of these processes.

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

Note 37 Risk management

The Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business. Supporting this approach is a risk governance framework that includes core risk principles as well as policies and processes for measuring and monitoring risk ('**Risk Governance Framework**').

Risk management framework and governance

The Board is responsible for determining the Bank's appetite for risk. The Bank is ultimately a subsidiary of the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank and its subsidiaries. Accordingly, the Banking Group's Risk Governance Framework is closely aligned with the Ultimate Parent Bank's Risk Governance Framework ('**Group Risk Governance Framework**').

The Board is supported by the NZBAC and the Bank's Board Risk Management Committee ('**Bank's BRMC**'), which are subcommittees of the Board responsible for monitoring risk management performance and controls across the Banking Group.

The NZBAC comprises five Directors of the Bank all of whom are non-executive and of which three are independent. The NZBAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk and the efficiency and effectiveness of audit and compliance with laws and regulations. It reviews the interim and annual financial statements, the activities of the Banking Group's auditors and monitors the relationship between management and the external auditors.

The Bank's BRMC comprises all of the non-executive Directors of the Board. The Bank's BRMC has power delegated by the Board to set risk appetites and approve frameworks, policies and processes for the management of risk. The Bank's BRMC approves the Risk Governance Framework at least every two years.

The Bank's Risk Governance Framework is designed to reflect that the Bank is responsible for identifying and managing risk and operating within the Bank's desired risk profile. Effective risk management is about achieving a balanced approach to risk and reward, and enables the Bank to both increase financial growth opportunities and mitigate potential loss or damage. Optimisation and mitigation strategies are equally important, along with maintaining an appropriate segregation of duties.

The Risk Governance Framework is owned by the Bank's Chief Risk Officer ('**CRO**'). Implementation is achieved through developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

Risk types

The Bank maintains a risk reward oriented approach to creating shareholder value utilising a measurement framework covering all material risk classes. The Bank distinguishes between different risk types and takes an integrated approach to managing them. These key risks are:

- Liquidity risk: the risk that the Bank will not be able to fund assets and meet obligations as they come due, without incurring unacceptable losses.
- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations.
- Market risk: the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.
- Operational risk: the risk that arises from inadequate or failed internal processes, people and systems or from external events.
- Compliance risk: the risk of legal or regulatory sanction, financial or reputational loss arising from the Banking Group's failure to apply the regulatory standards expected of the Banking Group as a financial services group.
- Other risks:
  - Equity risk – the potential for financial loss arising from adverse movements in the value of the Bank's direct and indirect equity investments.
  - Model risk – the risk of financial, reputational or operational losses arising because of inadequacies of a model.
  - Reputational risk – the risk to earnings or capital arising from negative public opinion, resulting from the loss of reputation or public trust and standing.
  - Related entity (contagion) risk – the risk that problems arising in other members of the Banking Group may compromise the financial position of the Bank.

The essential elements applied to these risks are:

- observable linkages between strategy, risk appetite, risk and reward, and capital adequacy;
- clearly defined accountabilities, responsibilities and authorities;
- an appropriate level of risk management resources with the skills required to fulfil their responsibilities and support the strategy;
- clearly defined operating structures, reporting lines and governance structures;
- clear goals, objectives and incentives, including an appropriate risk-focused component of employee performance measurement;
- processes and systems that facilitate effective:
  - risk identification, analysis, evaluation and quantification;
  - consideration of risk avoidance or mitigation;
  - acceptance and management of residual risk;
  - capture and reporting of risk data for both internal and external purposes;
  - risk-adjusted measurement where there are rewards for taking risk; and
  - risk oversight and analysis, including stress testing; and
- assurance processes which ensure that risk-related practices and controls are appropriately embedded and are effective, and comply with internal, regulatory and legislative requirements.

Management assurance programme

The Bank has an Executive Risk and Audit Committee ('**ERAC**') which meets quarterly, and which oversees credit, operational, compliance and reputational risks within the context of the Bank's risk appetite as determined by the Bank's BRMC as well as an Asset and Liability Committee ('**Bank's ALCO**') that leads the management of balance sheet risk and oversees market risk and equity risk within the context of the Bank's risk tolerance also determined by the Bank's BRMC.

Note 37 Risk management (continued)

The Banking Group has a management assurance programme designed to identify the key operational and compliance risks, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively. This programme allows senior management to affirm their satisfaction with the quality of the processes under their responsibility and with the effectiveness of the controls that support that assurance. The results of this process are reported to the ERAC. The Bank's Chief Executive ('**CE**') provides management assurance to the Ultimate Parent Bank Board Risk Management Committee ('**Ultimate Parent Bank's BRMC**'), the Ultimate Parent Bank Board Audit Committee and the CEO of the Ultimate Parent Bank.

This system of management assurance assists the Ultimate Parent Bank's Board in satisfying itself that the Banking Group's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

Independent New Zealand Assurance unit

The Banking Group has an independent assurance unit ('**New Zealand Assurance**') comprised of a New Zealand based Audit team, supported by the Ultimate Parent Bank Credit Risk Assurance and Model Risk Review functions, which reports to the NZBAC, as well as to the Ultimate Parent Bank.

New Zealand Assurance, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the Banking Group's activities, records, property and employees. The scope of responsibility of New Zealand Assurance covers systems of management control across all business activities and support functions at all levels of management within the Banking Group. The level of operational risk determines the scope and frequency of individual audits. The Head of New Zealand Assurance reports on a quarterly basis, or more often as deemed appropriate, to the NZBAC, to agree the budget and the annual assurance plan and to report its findings. In addition, the NZBAC has private sessions with the Head of New Zealand Assurance. Furthermore, the Head of New Zealand Assurance reports to the Chair of the NZBAC, and for administrative purposes to the NZ Chief Financial Officer ('**CFO**'), a member of the Bank's Executive Team, and the Ultimate Parent Bank's General Manager Group Assurance.

Reviews in respect of risk management systems

New Zealand Assurance participates quarterly in the management assurance programme in order to assess the adequacy of the governance framework supporting operational risk management.

Group Assurance's Credit Risk Assurance and Model Risk Review functions have a rolling programme of credit and model risk reviews throughout the financial year. New Zealand Assurance, with support from the Ultimate Parent Bank's Group Assurance unit, also periodically reviews the Bank's Operational, Market, Funding and Liquidity Risk Frameworks.

The reviews discussed above in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank, though they are independent and have no direct authority over the activities of management.

With a view to continuously improving its risk management, the Bank conducted an internal review of certain aspects of operational risk during the year ended 30 September 2011.

37.1 Compliance and operational risk

The Bank's ERAC, chaired by the Bank's CRO, meets quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. ERAC monitors the operational risk profiles and the action plans, and has the discretion to escalate material matters to the Bank's BRMC and/or the relevant Ultimate Parent Bank Group Risk Committee.

Compliance risk

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

The Bank has a dedicated Operational Risk and Compliance function. Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

Operational risk

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

The Bank has a dedicated Operational Risk function which uses its Operational Risk Management Framework (which is aligned to the Ultimate Parent Bank Group Operational Risk Management Framework) as a tool to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management and reporting and monitoring.

The Bank has implemented the AMA methodology for calculating operational risk capital. An outline of this methodology, as set out below, takes into consideration both internal and external factors. Economic capital is allocated across the Bank.

Calculating operational risk capital

The calculation of operational risk capital is designed to estimate the amount of capital required to withstand losses from extreme unexpected operational risk events in future years. The Banking Group adopts a hybrid approach, relying on a variety of data sources that combines actual loss experience with estimates of potential future losses based on expert business judgment.

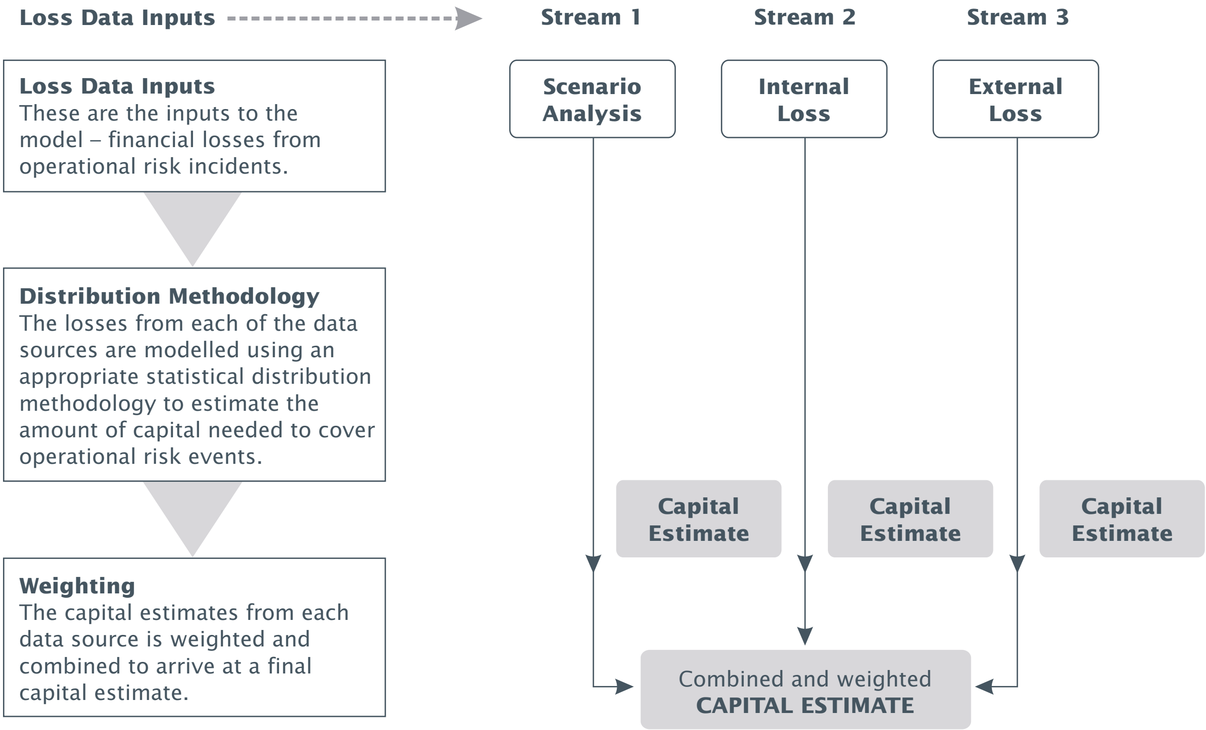
The Operational Risk Capital Model ('**ORCM**') has been developed to provide a reliable, reasonable and conservative estimate of the capital to be held by the Banking Group's regulated entities. It includes capital for both expected and unexpected losses arising from operational risk events.

The Banking Group undertakes three streams of analysis. Each stream utilises different data sets to generate an estimate of potential financial loss. The three capital estimates are then weighted and combined to produce an estimate of capital. Three streams are used to provide a more comprehensive assessment of possible operational risks by:

- covering smaller/frequent losses and larger/infrequent losses via scenario analysis;
- providing for losses previously experienced by the Banking Group; and
- utilising loss history from peers with similar business models.

Note 37 Risk management (continued)

Together these three streams give an indication of the future losses that are possible. The diagram below provides an overview of this process for calculating operational risk capital:



The calculation of operational risk capital does not currently make any adjustment or deduction for risks that may be covered by insurance or any expected losses that are the subject of financial provisions.

Operation risk capital is calculated quarterly. The ORCM is reviewed annually to re-assess the appropriateness of the model framework, model methodology, assumptions and the parameters used in the model in light of industry developments, advancements in modelling techniques and changes in the broader Operational Risk Management Framework.

The following table sets out the Banking Group's implied risk-weighted exposures under the AMA methodology and the operational risk capital requirement:

	2011		2010	
	Implied Risk-weighted Exposure Unaudited $m	**Total Operational Risk Capital Requirement Unaudited $m**	Implied Risk-weighted Exposure Unaudited $m	Total Operational Risk Capital Requirement Unaudited $m
Methodology implemented				
Advanced Measurement Approach				
Operational risk	**2,964**	**237**	3,480	278

37.2 Funding and liquidity risk

Liquidity risk is the potential inability to fund assets and meet our payment obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the Bank's balance sheet due to mismatches in the maturity of assets and liabilities. This risk is managed through the Bank's BRMC approved liquidity risk management framework.

Responsibility for liquidity management is delegated to the Bank's CFO under the oversight of the Bank's CE. The Bank's Treasury unit reports to the CFO and manages the liquidity position on a day to day basis. Liquidity risk positions are modelled and reported daily. Independent oversight is provided by the Head of Market Risk in conjunction with the Bank's CRO, with executive oversight provided by the Bank's ALCO. Monthly reporting of liquidity and funding risk is provided to the Bank's ALCO. Quarterly reporting is presented to the Bank's BRMC who also approve the funding strategy, liquidity limits structure and liquidity risk management framework. In addition, reporting is also provided to the Ultimate Parent Bank's Banking Book Risk Committee and Asset and Liability Committee.

The Bank aims to operate a mix of retail and wholesale funding, with emphasis on the value of core funding consistent with the principles inherent in BS13.

Note 37 Risk management (continued)

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework review

The liquidity risk management framework (the '**framework**') is owned by the Bank's CRO and approved by the Bank's BRMC. The framework covers all aspects of liquidity risk including:

- roles and responsibilities;
- measurement and modelling approaches;
- contingency planning;
- principal framework components, policies and reports along with the frequency of review and authority for approval;
- liquidity risk limits;
- scenarios covered;
- limit determination; and
- minimum holdings of liquid assets.

The framework is reviewed at least every two years and submitted to the Bank's BRMC for endorsement.

Daily liquidity modelling and reporting

The Bank is subject to the conditions of the Reserve Bank's liquidity policy, BS13. Accordingly, with effect from 1 April 2010, the following metrics are calculated and reported on a daily basis in accordance with BS13:

- the level of liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

In addition, the Bank calculates the following liquidity ratios in accordance with the Ultimate Parent Bank's liquidity risk framework under APS 210 Liquidity:

- a going concern scenario; and
- a name crisis scenario.

Reports are circulated daily to the Bank's Treasury, Risk and Finance personnel, including the Bank's CRO and CFO. Exceptions to internal limits are escalated immediately to the Bank's BRMC delegating the limit.

Annual funding plan

Each financial year the Bank's Treasury unit undertakes a comprehensive review resulting in the preparation of the Bank's annual funding plan. This review outlines the current funding strategy, proposes a funding strategy for the coming financial year and covers areas such as:

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

The Bank's annual funding plan is reviewed by the Bank's ALCO prior to approval by the Bank's BRMC.

Contingency planning

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

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

Sources of liquidity

The principal sources of liquidity for the Bank are:

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

Note 37 Risk management (continued)

Wholesale funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instruments. The Bank and its wholly-owned subsidiary WSNZL maintain funding programmes for both short and long-term debt in several jurisdictions including New Zealand, Europe and the United States.

	The Banking Group					
	2011			2010		
Markets	**Issuer**	**Programme Type**	**Programme Limit**	Issuer	Programme Type	Programme Limit
Euro market	**Ultimate Parent Bank/ WSNZL[1]**	**Euro Commercial Paper and Certificate of Deposit Programme**	**US$20 billion**	Ultimate Parent Bank/ WSNZL[1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	**WSNZL[1]**	**Programme for Issuance of Debt Instruments**	**US$7.5 billion**	WSNZL[1]	Programme for Issuance of Debt Instruments	US$7.5 billion
Euro market	**WSNZL[1]**	**Global Covered bond Programme**	**€5.0 billion**	N/A	N/A	N/A
United States	**WSNZL[1]**	**Section 4(2) US Commercial Paper Programme**	**US$10 billion**	WSNZL[1]	Section 4(2) US Commercial Paper Programme	US$10 billion
United States	**WSNZL[1]**	**Rule 144A US Medium-term Note Programme**	**US$10 billion**	WSNZL[1]	Rule 144A US Medium-term Note Programme	US$10 billion
New Zealand	**The Bank**	**Medium-term Note and Registered Certificate of Deposit Programme**	**No limit**	The Bank	Medium-term Note and Registered Certificate of Deposit Programme	No limit

1 Notes issued by WSNZL are guaranteed by the Bank.

Liquid assets

The table below shows the Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets readily convertible to cash to meet the Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Banking Group's present requirements.

	The Banking Group	
	2011 $m	2010 $m
Cash	**1,215**	399
Due from other financial institutions	**575**	-
Supranational securities	**166**	-
NZ Government securities	**2,930**	1,840
NZ public securities	**26**	-
NZ corporate securities	**2,216**	1,206
Residential mortgage-backed securities	**3,992**	6,092
Total liquid assets	**11,120**	9,537

Note 37 Risk management (continued)

Liquidity analysis

The following liquidity analysis for financial assets and financial liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at the reporting date to the contractual maturity. The total balances in the tables below may not agree to the balance sheet as these tables incorporate all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

	The Banking Group						
	2011						
	On Demand $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	1,215	-	-	-	-	-	1,215
Due from other financial institutions	670	29	-	-	-	-	699
Derivative financial instruments:							
Held for trading	12	-	-	-	-	-	12
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(20)	(60)	(2,139)	-	(2,219)
Cash inflow	-	-	-	62	2,014	-	2,076
Trading securities	-	582	2,054	422	202	56	3,316
Available-for-sale securities	-	1	14	118	472	1,318	1,923
Loans	4,334	2,193	4,375	5,189	19,290	46,977	82,358
Due from related entities:							
Non-derivative balances	1,517	-	-	-	-	-	1,517
Other assets	-	148	-	-	-	-	148
Total undiscounted financial assets	7,748	2,953	6,423	5,731	19,839	48,351	91,045
Liabilities							
Due to other financial institutions	100	-	-	-	-	-	100
Deposits	13,196	5,598	6,885	7,791	2,086	-	35,556
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	1	4	26	60	6	97
Debt issues	-	1,244	5,039	4,057	6,877	1,493	18,710
Other liabilities	-	512	-	-	-	-	512
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances	1,169	-	-	-	48	-	1,217
Derivative financial instruments:							
Held for trading	(200)	-	-	-	-	-	(200)
Held for hedging purposes (net settled)	-	26	36	32	(10)	-	84
Held for hedging purposes (gross settled):							
Cash outflow	-	22	51	2,669	3,573	1,508	7,823
Cash inflow	-	-	(25)	(2,107)	(3,123)	(1,376)	(6,631)
Total undiscounted financial liabilities	14,265	7,403	11,990	12,468	9,511	2,601	58,238
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	164	-	-	-	-	-	164
Other commitments to provide financial services which have an original maturity of one year or more	6,553	-	-	-	-	-	6,553
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,850	-	-	-	-	-	4,850
Total undiscounted contingent liabilities and commitments	11,567	-	-	-	-	-	11,567

Note 37 Risk management (continued)

	The Banking Group						
	2010						
	On Demand $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	522	-	-	-	-	-	522
Due from other financial institutions	3	-	-	-	-	-	3
Derivative financial instruments:							
Held for trading	17	-	-	-	-	-	17
Trading securities	-	1,217	1,031	351	-	-	2,599
Available-for-sale securities	-	-	-	-	44	-	44
Loans	2,830	2,183	3,991	5,755	19,006	51,541	85,306
Due from related entities:							
Non-derivative balances	830	-	-	-	-	-	830
Other assets	-	143	-	-	-	-	143
Total undiscounted financial assets	4,202	3,543	5,022	6,106	19,050	51,541	89,464
Liabilities							
Deposits	14,216	2,357	6,328	9,165	1,052	-	33,118
Debt issues	-	701	3,011	3,835	7,492	1,645	16,684
Other liabilities	-	494	-	-	-	-	494
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances	491	-	-	-	48	-	539
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	27	83	114	110	(1)	333
Held for hedging purposes (gross settled):							
Cash outflow	-	25	55	243	6,349	1,638	8,310
Cash inflow	-	-	(26)	(155)	(5,333)	(1,514)	(7,028)
Total undiscounted financial liabilities	14,990	3,604	9,451	13,202	9,718	2,738	53,703
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	105	-	-	-	-	-	105
Other commitments to provide financial services which have an original maturity of one year or more	5,925	-	-	-	-	-	5,925
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,487	-	-	-	-	-	4,487
Total undiscounted contingent liabilities and commitments	10,517	-	-	-	-	-	10,517

Note 37 Risk management (continued)

	The Bank						
	2011						
	On Demand $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	1,215	-	-	-	-	-	1,215
Due from other financial institutions	670	29	-	-	-	-	699
Derivative financial instruments:							
Held for trading	12	-	-	-	-	-	12
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(20)	(60)	(2,139)	-	(2,219)
Cash inflow	-	-	-	62	2,014	-	2,076
Trading securities	-	582	2,054	422	202	56	3,316
Available-for-sale securities	-	1	14	118	472	1,318	1,923
Loans	4,334	2,193	4,302	5,188	19,284	46,915	82,216
Due from related entities:							
Non-derivative balances	1,761	10	68	230	1,543	8,910	12,522
Other assets	-	129	-	-	-	-	129
Total undiscounted financial assets	7,992	2,944	6,418	5,960	21,376	57,199	101,889
Liabilities							
Due to other financial institutions	100	-	-	-	-	-	100
Deposits	13,195	5,497	6,731	7,563	2,061	-	35,047
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	1	4	26	60	6	97
Debt issues	-	2	337	65	1,434	119	1,957
Other liabilities	-	415	-	-	-	-	415
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances[1]	2,107	1,448	4,771	4,234	7,055	10,094	29,709
Derivative financial instruments:							
Held for trading	(200)	-	-	-	-	-	(200)
Held for hedging purposes (net settled)	-	26	36	32	(10)	-	84
Held for hedging purposes (gross settled):							
Cash outflow	-	22	51	2,669	3,573	1,508	7,823
Cash inflow	-	-	(25)	(2,107)	(3,123)	(1,376)	(6,631)
Total undiscounted financial liabilities	15,202	7,411	11,905	12,482	11,050	11,321	69,371
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	164	-	-	-	-	-	164
Other commitments to provide financial services which have an original maturity of one year or more	6,553	-	-	-	-	-	6,553
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,781	-	-	-	-	-	4,781
Total undiscounted contingent liabilities and commitments	11,498	-	-	-	-	-	11,498

1 The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. As a result, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Notes to the financial statements

Note 37 Risk management (continued)

	The Bank						
	2010						
	On Demand $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	522	-	-	-	-	-	522
Derivative financial instruments:							
Held for trading	17	-	-	-	-	-	17
Trading securities	-	1,217	1,031	351	-	-	2,599
Available-for-sale securities	-	-	-	-	44	-	44
Loans	2,830	2,183	3,917	5,755	19,006	51,541	85,232
Due from related entities:							
Non-derivative balances	831	-	77	285	1,837	9,069	12,099
Other assets	-	142	-	-	-	-	142
Total undiscounted financial assets	4,200	3,542	5,025	6,391	20,887	60,610	100,655
Liabilities							
Deposits	14,216	2,292	6,251	8,984	1,049	-	32,792
Debt issues	-	21	58	729	1,819	131	2,758
Other liabilities	-	420	-	-	-	-	420
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances[1]	893	680	3,030	3,391	7,558	10,583	26,135
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	27	83	114	110	(1)	333
Held for hedging purposes (gross settled):							
Cash outflow	-	25	55	243	6,349	1,638	8,310
Cash inflow	-	-	(26)	(155)	(5,333)	(1,514)	(7,028)
Total undiscounted financial liabilities	15,392	3,465	9,451	13,306	11,552	11,807	64,973
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	105	-	-	-	-	-	105
Other commitments to provide financial services which have an original maturity of one year or more	5,925	-	-	-	-	-	5,925
Other commitments of original maturity of less than one year or which can be unconditionally cancelled at any time	4,349	-	-	-	-	-	4,349
Total undiscounted contingent liabilities and commitments	10,379	-	-	-	-	-	10,379

1 The Bank provides a financial guarantee in relation to commercial paper and other debt securities issued by WSNZL, the proceeds of which are immediately on lent to the Bank. As a result, the financial guarantee provided by the Bank is reflected as part of the amounts due to related entities.

Note 37 Risk management (continued)

37.3 Credit risk

Credit risk is the risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the Banking Group. It arises from the Banking Group's lending activities and from interbank, treasury and international trade activities.

Credit risk management

The Banking Group adopts two approaches to managing credit risk depending upon the nature of the customer and product:

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

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

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

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

Credit policies with group-wide implications are owned by the Group Risk division of the Ultimate Parent Bank ('**Ultimate Parent Bank Group Risk**') and approved by the Ultimate Parent Bank Group Credit Risk Committee. Compliance with these policies is administered locally.

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

Credit risk mitigation

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

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

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

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

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. The value of the guarantee is not separately recorded, and therefore not available for disclosure, under Clause 7 of Schedule 11 to the Order.

Guarantor/credit derivative counterparties

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

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

Internal credit risk rating system

The principal objective of the credit risk rating system is to produce a reliable quantitative assessment of the credit risk to which the Banking Group is exposed.

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

Note 37 Risk management (continued)

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

Banking Group's customer risk grade	Standard & Poor's rating	Moody's rating	Supervisory slotting grade
A	AAA to AA-	Aaa to Aa3	Strong
B	A+ to A-	A1 to A3	Strong
C	BBB+ to BBB-	Baa1 to Baa3	Strong
D	BB+ to B+	Ba1 to B1	Good/satisfactory
Banking Group rating			
E	Watchlist		Weak
F	Specific mention		Weak
G	Substandard/default		Weak/default
H	Default		Default

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

The Banking Group's credit risk rating system is reviewed to ensure the rating criteria and procedures are applicable to the current portfolio and external conditions. The annual review of the credit risk rating framework is approved by the Ultimate Parent Bank BRMC.

To ensure the credit risk rating system is applied consistently across the Banking Group, the Ultimate Parent Bank Group's Credit Risk Assurance team independently review end-to-end technical and operational aspects of the overall process. Models materially impacting the risk rating process are reviewed annually in accordance with the Ultimate Parent Bank Group's model risk policy.

Specific credit risk estimates (including PD, LGD and the Credit Conversion Factor ('**CCF**')) are overseen and approved by ERAC and by the Ultimate Parent Bank Group Credit Risk Estimates Committee for utilisation within the Banking Group.

Use of internal credit risk estimates

In addition to using the credit risk estimates for regulatory capital purposes they are also used for the following purposes:

Economic capital

The Banking Group allocates economic capital to all exposures. Economic capital includes both credit and non-credit components. Economic credit capital is allocated using a framework that considers estimates of PD, LGD, EAD, Total Committed Exposure ('**TCE**') and loan tenor as well as measures of portfolio composition not reflected in regulatory capital formulae[1].

Pricing

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

Provisioning

Impairment provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction-managed portfolio provisions use the risk grading framework and suitable PD, LGD and EADs assigned to each customer/facility as the basis for the calculation. Program-managed portfolios use estimated loss rates based on recent past experience as the primary basis of the calculation. These estimates are then adjusted for the specific requirements of the NZ IFRS accounting standards.

Credit approval authorities

For transaction-managed facilities, the approval authorities are allocated based on the CRG with lower limits applicable for customers with a higher PD. Program-managed facilities are approved on the basis of application scorecard outcomes and product-based approval authorities.

Risk-adjusted performance measurement

Business unit performance is measured using an economic profit framework which incorporates charges for economic credit capital as well as capital for other risk types.

Regulatory capital

Overview of internal credit risk ratings process by portfolio

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

Transaction-managed approach (including business lending, corporate, sovereign and bank)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgment decision-making process is employed to evaluate the CRG. The following represent the types of business lending, corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- foreign exchange settlement exposures; and
- transaction exposures.

All of the above exposure categories also apply to Specialised Lending, which is a sub-asset class of Corporate and in the Banking Group comprises Project and Property Finance. Regulatory risk-weights are also applied to Specialised Lending.

1 The Banking Group uses economic capital as the basis for risk-adjusted decision-making across the Banking Group and allows differences between economic and regulatory capital where such differences drive better medium-term to long-term business decisions.

Note 37 Risk management (continued)

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

(i) Probability of Default

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. PD is represented in a customer's risk grade.

(ii) Loss Given Default

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

LGD estimates are benchmarked against observed historical LGDs from internal and external data and are calibrated to reflect losses expected in an economic downturn. The calculation of historical LGDs is based on an economic loss and includes allowances for workout costs and the discounting of future cash flows to the date of default.

LGD values range from 5% to 100%. The range of LGD values ensures that the risk of loss is differentiated across many credit facilities extended to customers.

(iii) Exposure at Default and Credit Conversion Factor

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

Retail (program-managed) asset class approach (including residential mortgages, small business and other retail)

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

(i) Probability of Default

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

(ii) Loss Given Default

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

(iii) Exposure at Default

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

(iv) Total Committed Exposure

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

Maximum exposure to credit risk

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Financial assets				
Cash and balances with central bank	**1,215**	522	**1,215**	522
Due from other financial institutions	**699**	3	**699**	-
Derivative financial instruments	**85**	17	**85**	17
Trading securities	**3,261**	2,587	**3,261**	2,587
Available for sale securities	**1,518**	44	**1,518**	44
Loans	**51,250**	50,034	**51,107**	49,875
Due from related entities	**1,517**	830	**9,511**	8,331
Other assets	**148**	143	**129**	142
Total financial assets	**59,693**	54,180	**67,525**	61,518
Contingent liabilities and commitments				
Direct credit substitutes	**113**	77	**113**	77
Loan commitments with certain drawdown	**164**	105	**164**	105
Transaction-related contingent items	**257**	254	**257**	254
Short-term, self-liquidating trade-related contingent liabilities	**644**	758	**644**	758
Other commitments to provide financial services which have an original maturity of one year or more	**6,553**	5,925	**6,553**	5,925
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	**4,850**	4,487	**4,781**	4,349
Total contingent liabilities and commitments	**12,581**	11,606	**12,512**	11,468
Total maximum credit risk exposure	**72,274**	65,786	**80,037**	72,986

Note 37 Risk management (continued)

Summary of the Banking Group's total credit risk as calculated under the Basel II Framework

The Banking Group's total credit risk under the Basel II framework as at 30 September 2011 was as follows:

	Risk-weighted Exposure Unaudited $m	Minimum Capital Requirement Unaudited $m
Internal risk base		
Residential mortgages	12,905	1,033
Other retail	2,450	196
Small business	1,190	95
Corporate/Business lending	9,854	788
Sovereign	146	12
Bank	380	30
Equity	150	12
Specialised lending: Project and property finance	4,230	338
Standardised	998	80
Total	32,303	2,584

Mapping of Basel categories to the Banking Group portfolios

Asset Class	Sub-asset Class	Banking Group Category	Segmentation Criteria
Corporate	Corporate	Corporate	All transaction-managed customers not elsewhere classified where annual turnover exceeds $50 million.
	SME corporate	Business lending	All transaction-managed customers not elsewhere classified where annual turnover is $50 million or less.
	Specialised lending	Specialised lending-property	Applied to transaction-managed customers where the primary source of debt service, security and repayment is derived from either the sale of a property development or income produced by one or more investment properties.
Sovereign		Sovereign	Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code.
Bank		Bank	Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code.
Residential mortgages		Residential mortgages	All program-managed exposures secured by residential mortgages, including business loans under $1 million fully secured by residential mortgages.
Other retail		Small business	Program-managed business lending, excluding business loans under $1 million secured by residential mortgages.
		Other retail	All other program-managed lending to retail customers, including New Zealand credit cards.

Note 37 Risk management (continued)

Credit risk exposures by asset class

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

PD Band (%)	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	**2,216**	**1,913**	-	**22**	**8**	**162**	**13**
0.25 to 1.0	**19,514**	**18,720**	**1**	**22**	**19**	**3,636**	**291**
1.0 to 2.5	**14,590**	**14,260**	**1**	**22**	**36**	**5,100**	**408**
2.5 to 10.0	**3,919**	**3,870**	**5**	**22**	**69**	**2,663**	**213**
10.0 to 99.99	-	-	-	-	-	-	-
Default	**656**	**651**	**100**	**22**	**206**	**1,344**	**108**
Total	**40,895**	**39,414**	**3**	**22**	**33**	**12,905**	**1,033**
Other retail (Credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	**650**	**440**	-	**41**	**14**	**61**	**5**
0.25 to 1.0	**1,807**	**1,072**	-	**63**	**40**	**425**	**34**
1.0 to 2.5	**1,306**	**1,142**	**2**	**67**	**94**	**1,071**	**86**
2.5 to 10.0	**355**	**340**	**5**	**82**	**130**	**443**	**35**
10.0 to 99.99	**223**	**223**	**19**	**70**	**152**	**338**	**27**
Default	**30**	**28**	**100**	**67**	**405**	**112**	**9**
Total	**4,371**	**3,245**	**4**	**64**	**76**	**2,450**	**196**
Small business							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	**272**	**198**	-	**74**	**26**	**51**	**4**
0.25 to 1.0	**752**	**749**	**1**	**23**	**22**	**163**	**13**
1.0 to 2.5	-	-	-	-	-	-	-
2.5 to 10.0	**2,072**	**2,039**	**3**	**19**	**29**	**592**	**47**
10.0 to 99.99	**41**	**41**	**21**	**25**	**58**	**24**	**2**
Default	**133**	**133**	**100**	**23**	**272**	**360**	**29**
Total	**3,270**	**3,160**	**7**	**24**	**38**	**1,190**	**95**

1 As disclosed in the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

Note 37 Risk management (continued)

PD Grade	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Banking Group – Corporate/Business lending							
AAA	-	-	-	-	-	-	-
AA	27	27	-	55	19	5	-
A	148	148	-	60	30	45	4
BBB	1,273	1,273	-	38	36	459	37
BB	7,399	7,399	2	35	79	5,822	465
B	216	216	3	34	94	204	16
Other	1,171	1,171	21	42	220	2,582	207
Default	313	460	100	38	160	737	59
Total	10,547	10,694	8	36	92	9,854	788
Sovereign							
AAA	3,216	3,216	-	5	1	42	3
AA	26	26	-	10	4	1	-
A	676	676	-	20	11	72	6
BBB	200	200	-	21	15	30	3
BB	5	5	2	35	21	1	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	4,123	4,123	-	8	4	146	12
Bank							
AAA	210	210	-	20	11	24	2
AA	2,074	2,074	-	58	16	340	27
A	100	100	-	60	16	16	1
BBB	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	2,384	2,384	-	55	16	380	30

Equity	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Equity holdings (not deducted from capital) that are publicly traded	50	50	-	-	300	150	12

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 unaudited amounts are included in the above tables.

	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value $m	EAD $m	Value $m	EAD $m
Residential mortgages	5,936	4,454	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,665	1,540	-	-
Small business	990	881	-	-
Corporate/Business lending	1,872	1,872	-	-
Sovereign	393	393	-	-
Bank	-	-	-	-
Total	11,856	9,140	-	-

1 As disclosed in the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

Note 37 Risk management (continued)

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

Supervisory slotting grade	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Strong	777	777	70	544	43
Good	1,875	1,875	90	1,688	135
Satisfactory	795	796	115	915	73
Weak	433	433	250	1,083	87
Default	308	413	-	-	-
Total	4,188	4,294	99	4,230	338

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.

	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Undrawn commitments and other off-balance sheet amounts	273	273	97	265	21

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

Calculation of on-balance sheet exposures

	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Exposure $m	Required Regulatory Capital $m
Property, plant and equipment and other assets	302	302	100	302	24
Related parties	1,565	1,565	29	447	36
Total on-balance sheet exposures	1,867	1,867		749	60

Calculation of off-balance sheet exposures

	Total Principal Amount $m	Credit Equivalent Amount $m	Average Risk Weight %	Risk-weighted Exposure $m	Required Regulatory Capital $m
Market related contracts subject to the standardised approach					
Foreign exchange contracts	16,139	769	20	154	12
Interest rate contracts	25,435	191	20	38	3
Total market related contracts subject to the standardised approach	41,574	960		192	15
Standardised subtotal	43,441	2,827		941	75
After adjustment for scalar[1]				998	80

1 As disclosed in the conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on page 6.

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

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the Bank utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure as required under Clause 4 of Schedule 11 to the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 90% plus category in accordance with the requirements of the Order.

LVR range	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	13,084	5,627	7,769	5,413	3,066	34,959
Undrawn commitments and other off-balance sheet exposures	3,679	861	826	360	210	5,936
Value of exposures ($m)	16,763	6,488	8,595	5,773	3,276	40,895

Note 37 Risk management (continued)

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

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

	The Banking Group 30 September 2011 Unaudited $m
Term loans – Housing (as disclosed in Note 12) and Residential mortgages – total gross loans (as disclosed in Note 13)	**35,086**
Reconciling items:	
Unamortised deferred fees and cost	**(45)**
Fair value hedge adjustments	**(82)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**5,936**
Residential mortgages by LVR	**40,895**

Credit quality of financial assets

The tables below segregate the financial assets of the Banking Group and the Bank between financial assets that are neither past due nor impaired, past due but not impaired and impaired.

An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion. The breakdown in the tables below does not always align with the underlying basis by which credit risk is managed within the Banking Group. The Banking Group considers loans for business purposes to be delinquent after considering all relevant circumstances surrounding the customer. Residential mortgages and personal loans that are more than five days past due are considered to be delinquent.

Financial assets of the Banking Group at 30 September 2011 and 2010 can be disaggregated as follows:

	The Banking Group 2011					
	Neither Past Due Nor Impaired $m	**Past Due But Not Impaired $m**	**Impaired $m**	**Total $m**	**Impairment $m**	**Total Carrying Value $m**
Cash and balances with central banks	**1,215**	-	-	**1,215**	-	**1,215**
Due from other financial institutions	**699**	-	-	**699**	-	**699**
Derivative financial instruments	**85**	-	-	**85**	-	**85**
Trading securities	**3,261**	-	-	**3,261**	-	**3,261**
Available-for-sale securities	**1,518**	-	-	**1,518**	-	**1,518**
Loans	**49,165**	**1,864**	**794**	**51,823**	**(573)**	**51,250**
Due from related entities	**1,517**	-	-	**1,517**	-	**1,517**
Other assets	**148**	-	-	**148**	-	**148**
Total financial assets	**57,608**	**1,864**	**794**	**60,266**	**(573)**	**59,693**

	The Banking Group 2010					
	Neither Past Due Nor Impaired $m	Past Due But Not Impaired $m	Impaired $m	Total $m	Impairment $m	Total Carrying Value $m
Cash and balances with central banks	522	-	-	522	-	522
Due from other financial institutions	3	-	-	3	-	3
Derivative financial instruments	17	-	-	17	-	17
Trading securities	2,587	-	-	2,587	-	2,587
Available-for-sale securities	44	-	-	44	-	44
Loans	47,906	2,115	742	50,763	(729)	50,034
Due from related entities	830	-	-	830	-	830
Other assets	143	-	-	143	-	143
Total financial assets	52,052	2,115	742	54,909	(729)	54,180

Note 37 Risk management (continued)

Financial assets of the Bank at 30 September 2011 and 2010 can be disaggregated as follows:

	The Bank					
	2011					
	Neither Past Due Nor Impaired $m	Past Due But Not Impaired $m	Impaired $m	Total $m	Impairment $m	Total Carrying Value $m
Cash and balances with central banks	**1,215**	-	-	**1,215**	-	**1,215**
Due from other financial institutions	**699**	-	-	**699**	-	**699**
Derivative financial instruments	**85**	-	-	**85**	-	**85**
Trading securities	**3,261**	-	-	**3,261**	-	**3,261**
Available-for-sale securities	**1,518**	-	-	**1,518**	-	**1,518**
Loans	**49,037**	**1,845**	**794**	**51,676**	**(569)**	**51,107**
Due from related entities	**9,511**	-	-	**9,511**	-	**9,511**
Other assets	**129**	-	-	**129**	-	**129**
Total financial assets	**65,455**	**1,845**	**794**	**68,094**	**(569)**	**67,525**

	The Bank					
	2010					
	Neither Past Due Nor Impaired $m	Past Due But Not Impaired $m	Impaired $m	Total $m	Impairment $m	Total Carrying Value $m
Cash and balances with central banks	522	-	-	522	-	522
Due from other financial institutions	-	-	-	-	-	-
Derivative financial instruments	17	-	-	17	-	17
Trading securities	2,587	-	-	2,587	-	2,587
Available-for-sale securities	44	-	-	44	-	44
Loans	47,751	2,107	742	50,600	(725)	49,875
Due from related entities	8,331	-	-	8,331	-	8,331
Other assets	142	-	-	142	-	142
Total financial assets	59,394	2,107	742	62,243	(725)	61,518

Financial assets that are neither past due nor individually impaired

The credit quality of financial assets of the Banking Group and the Bank that are neither past due nor impaired have been assessed by reference to the credit risk rating system adopted internally:

	The Banking Group							
	2011				2010			
	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m
Cash and balances with central banks	**1,215**	-	-	**1,215**	522	-	-	522
Due from other financial institutions	**699**	-	-	**699**	3	-	-	3
Derivative financial instruments	**85**	-	-	**85**	17	-	-	17
Trading securities	**3,261**	-	-	**3,261**	2,587	-	-	2,587
Available-for-sale securities	**1,518**	-	-	**1,518**	44	-	-	44
Loans	**2,248**	**45,503**	**1,414**	**49,165**	2,421	43,784	1,701	47,906
Due from related entities	**1,517**	-	-	**1,517**	830	-	-	830
Other assets	**148**	-	-	**148**	143	-	-	143
Total financial assets	**10,691**	**45,503**	**1,414**	**57,608**	6,567	43,784	1,701	52,052

Note 37 Risk management (continued)

	The Bank							
	2011				2010			
	Strong $m	**Good/ Satisfactory $m**	**Weak $m**	**Total $m**	Strong $m	Good/ Satisfactory $m	Weak $m	Total $m
Cash and balances with central banks	**1,215**	**-**	**-**	**1,215**	522	-	-	522
Due from other financial institutions	**699**	**-**	**-**	**699**	-	-	-	-
Derivative financial instruments	**85**	**-**	**-**	**85**	17	-	-	17
Trading securities	**3,261**	**-**	**-**	**3,261**	2,587	-	-	2,587
Available-for-sale securities	**1,518**	**-**	**-**	**1,518**	44	-	-	44
Loans	**2,248**	**45,375**	**1,414**	**49,037**	2,421	43,640	1,690	47,751
Due from related entities	**9,511**	**-**	**-**	**9,511**	8,331	-	-	8,331
Other assets	**129**	**-**	**-**	**129**	142	-	-	142
Total financial assets	**18,666**	**45,375**	**1,414**	**65,455**	14,064	43,640	1,690	59,394

37.4 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates and equity prices. As the Ultimate Parent Bank's financial markets business in New Zealand is conducted by the NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). With the exception of the available-for-sale investment in Visa shares (refer Note 26), neither the Banking Group nor the Bank carries material foreign currency or equity price risk due to the risks being hedged with the Ultimate Parent Bank.

Non-traded market risk (interest rate risk in the banking book)

Approach

The banking book activities that give rise to market risk include lending activities, balance sheet funding and capital management. Interest rate risk and funding and liquidity risk are inherent in these activities. The Bank's Treasury unit is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

The Bank's Treasury unit manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the Bank's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('**NII**') over time. These activities are performed within the Market Risk Management Framework approved by the Ultimate Parent Bank BRMC.

NII sensitivity

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

Limits

The Ultimate Parent Bank BRMC has approved NaR and Value-at-risk ('**VaR**') limits for banking book risk across the Ultimate Parent Bank Group. A NaR sub limit has been assigned to controlled entities of the Ultimate Parent Bank operating within New Zealand and in addition structural limits, expressed as interest rate delta, are also in place for these entities.

Risk reporting

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

Daily monitoring of current exposure and limit utilisation is conducted independently by the Head of Market Risk. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the Ultimate Parent Bank's risk forums of the Market Risk Committee and Ultimate Parent Bank BRMC, respectively, to ensure transparency of material market risks and issues.

Risk mitigation

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

Market risk notional capital charges

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

Note 37 Risk management (continued)

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

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

	The Banking Group 2011 Unaudited			The Banking Group 2010 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	**763**	**61**	**1.36**	900	72	1.78
Foreign currency risk	**50**	**4**	**0.09**	44	4	0.09
Equity risk	**50**	**4**	**0.09**	44	4	0.09
Peak end-of-day						
Interest rate risk	**1,463**	**117**	**2.60**	1,188	95	2.35
Foreign currency risk	**50**	**4**	**0.09**	44	4	0.09
Equity risk	**50**	**4**	**0.09**	44	4	0.09

VaR

The Banking Group applies a VaR methodology to its portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

VaR is an estimate of the potential loss in value, to a 99% confidence level assuming positions were held unchanged for one day. The Banking Group uses a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The Banking Group does not have any significant foreign currency and equity risk. The following table provides a summary of Interest Rate Risk VaR for the Banking Group's non-traded market risk activities.

	2011 $m	2010 $m
Interest rate risk	**1.27**	0.44

Interest rate sensitivity

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

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2011. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour to manage its interest rate risk.

Note 37 Risk management (continued)

The Banking Group 2011

	Up to 3 Months $m	Over 3 Months and up to 6 Months $m	Over 6 Months and up to 1 Year $m	Over 1 Year and up to 2 Years $m	Over 2 Years $m	Non-interest Bearing $m	Total $m
Financial assets							
Cash and balances with central banks	1,074	-	-	-	-	141	1,215
Due from other financial institutions	699	-	-	-	-		699
Derivative financial instruments	-	-	-	-	-	85	85
Trading securities	2,853	200	208	-	-	-	3,261
Available-for-sale securities	-	-	61	26	1,381	50	1,518
Loans	34,017	3,397	5,810	6,388	2,211	(573)	51,250
Due from related entities	1,412	-	-	-	-	105	1,517
Other assets	-	-	-	-	-	148	148
Total financial assets	40,055	3,597	6,079	6,414	3,592	(44)	59,693
Non-financial assets							963
Total assets							60,656
Financial liabilities							
Due to other financial institutions	100	-	-	-	-	-	100
Deposits	22,759	5,602	1,919	1,040	867	2,699	34,886
Derivative financial instruments	-	-	-	-	-	84	84
Debt issues	7,805	919	1,968	728	6,210	-	17,630
Other liabilities	-	-	-	-	-	512	512
Perpetual subordinated notes	970	-	-	-	-	-	970
Due to related entities	1,173	-	-	-	-	633	1,806
Total financial liabilities	32,807	6,521	3,887	1,768	7,077	3,928	55,988
Non-financial liabilities							172
Total liabilities							56,160
Off-balance sheet financial instruments							
Net interest rate contracts (notional):							
(Payable)/receivable	(1,053)	355	(1,893)	(2,065)	4,656	-	-

The Banking Group 2010

	Up to 3 Months $m	Over 3 Months and up to 6 Months $m	Over 6 Months and up to 1 Year $m	Over 1 Year and up to 2 Years $m	Over 2 Years $m	Non-interest Bearing $m	Total $m
Financial assets							
Cash and balances with central banks	399	-	-	-	-	123	522
Due from other financial institutions	3	-	-	-	-	-	3
Derivative financial instruments	-	-	-	-	-	17	17
Trading securities	2,239	348	-	-	-		2,587
Available-for-sale securities	-	-	-	-	-	44	44
Loans	29,140	3,401	6,841	8,315	3,066	(729)	50,034
Due from related entities	299	-	-	-	-	531	830
Other assets	-	-	-	-	-	143	143
Total financial assets	32,080	3,749	6,841	8,315	3,066	129	54,180
Non-financial assets							999
Total assets							55,179
Financial liabilities							
Deposits	20,221	5,628	3,272	375	560	2,410	32,466
Debt issues	6,748	732	352	2,341	5,266	-	15,439
Other liabilities	-	-	-	-	-	494	494
Perpetual subordinated notes	970	-	-	-	-	-	970
Due to related entities	465	-	48	-	-	1,115	1,628
Total financial liabilities	28,404	6,360	3,672	2,716	5,826	4,019	50,997
Non-financial liabilities							134
Total liabilities							51,131
Off-balance sheet financial instruments							
Net interest rate contracts (notional):							
Receivable/(payable)	1,419	2,126	(2,663)	(4,370)	3,488	-	-

Note 37 Risk management (continued)

	The Bank						
	2011						
	Up to 3 Months $m	Over 3 Months and up to 6 Months $m	Over 6 Months and up to 1 Year $m	Over 1 Year and up to 2 Years $m	Over 2 Years $m	Non-interest Bearing $m	Total $m
Financial assets							
Cash and balances with central banks	**1,074**	**-**	**-**	**-**	**-**	**141**	**1,215**
Due from other financial institutions	**699**	**-**	**-**	**-**	**-**	**-**	**699**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**85**	**85**
Trading securities	**2,853**	**200**	**208**	**-**	**-**	**-**	**3,261**
Available-for-sale securities	**-**	**-**	**61**	**26**	**1,381**	**50**	**1,518**
Loans	**33,891**	**3,391**	**5,800**	**6,384**	**2,210**	**(569)**	**51,107**
Due from related entities	**9,298**	**-**	**-**	**-**	**-**	**213**	**9,511**
Other assets	**-**	**-**	**-**	**-**	**-**	**129**	**129**
Total financial assets	**47,815**	**3,591**	**6,069**	**6,410**	**3,591**	**49**	**67,525**
Non-financial assets							**1,039**
Total assets							**68,564**
Financial liabilities							
Due to other financial institutions	**100**	**-**	**-**	**-**	**-**	**-**	**100**
Deposits	**22,509**	**5,427**	**1,872**	**1,023**	**860**	**2,699**	**34,390**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**84**	**84**
Debt issues	**295**	**-**	**-**	**72**	**1,231**	**-**	**1,598**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**415**	**415**
Perpetual subordinated notes	**970**	**-**	**-**	**-**	**-**	**-**	**970**
Due to related entities	**14,803**	**1,450**	**2,554**	**1,482**	**5,358**	**770**	**26,417**
Total financial liabilities	**38,677**	**6,877**	**4,426**	**2,577**	**7,449**	**3,968**	**63,974**
Non-financial liabilities							**164**
Total liabilities							**64,138**
Off-balance sheet financial instruments							
Net interest rate contracts (notional):							
(Payable)/receivable	**(1,053)**	**355**	**(1,893)**	**(2,065)**	**4,656**	**-**	**-**

	The Bank						
	2010						
	Up to 3 Months $m	Over 3 Months and up to 6 Months $m	Over 6 Months and up to 1 Year $m	Over 1 Year and up to 2 Years $m	Over 2 Years $m	Non-interest Bearing $m	Total $m
Financial assets							
Cash and balances with central banks	399	-	-	-	-	123	522
Derivative financial instruments	-	-	-	-	-	17	17
Trading securities	2,239	348	-	-	-	-	2,587
Available-for-sale securities	-	-	-	-	-	44	44
Loans	29,005	3,393	6,828	8,313	3,061	(725)	49,875
Due from related entities	7,761	-	-	-	-	570	8,331
Other assets	-	-	-	-	-	142	142
Total financial assets	39,404	3,741	6,828	8,313	3,061	171	61,518
Non-financial assets							1,108
Total assets							62,626
Financial liabilities							
Deposits	20,082	5,533	3,192	372	560	2,410	32,149
Debt issues	285	-	322	290	1,285	-	2,182
Other liabilities	-	-	-	-	-	420	420
Perpetual subordinated notes	970	-	-	-	-	-	970
Due to related entities	14,730	762	48	2,051	3,981	1,207	22,779
Total financial liabilities	36,067	6,295	3,562	2,713	5,826	4,037	58,500
Non-financial liabilities							130
Total liabilities							58,630
Off-balance sheet financial instruments							
Net interest rate contracts (notional):							
Receivable/(payable)	1,419	2,126	(2,663)	(4,370)	3,488	-	-

Note 38 Concentration of funding

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Funding consists of				
Due to other financial institutions	**100**	-	**100**	-
Deposits	**34,886**	32,466	**34,390**	32,149
Debt issues[1]	**17,630**	15,439	**1,598**	2,182
Perpetual subordinated notes	**970**	970	**970**	970
Due to related entities[2]	**1,173**	513	**25,647**	21,572
Total funding	**54,759**	49,388	**62,705**	56,873
Analysis of funding by product				
Certificates of deposit	**1,556**	1,902	**1,556**	1,902
Savings accounts	**8,421**	7,394	**8,421**	7,394
Demand deposits	**4,768**	4,406	**4,768**	4,406
Other deposits	**913**	904	**913**	904
Term deposits	**19,228**	17,860	**18,732**	17,543
Debt issues	**17,630**	15,439	**1,598**	2,182
Perpetual subordinated notes	**970**	970	**970**	970
Subtotal	**53,486**	48,875	**36,958**	35,301
Due to other financial institutions	**100**	-	**100**	-
Due to related entities[2]	**1,173**	513	**25,647**	21,572
Total funding	**54,759**	49,388	**62,705**	56,873
Analysis of funding by geographical areas[1]				
New Zealand	**36,121**	33,891	**60,301**	54,655
Australia	**702**	649	**688**	643
United Kingdom	**301**	475	**103**	96
United States of America	**7,901**	6,363	**172**	161
Other	**9,734**	8,010	**1,441**	1,318
Total funding	**54,759**	49,388	**62,705**	56,873
Analysis of funding by industry and economic sector				
Accommodation, cafes and restaurants	**159**	148	**159**	148
Agriculture	**919**	821	**919**	821
Construction	**900**	847	**900**	847
Finance and insurance	**22,176**	19,126	**5,869**	6,564
Forestry and fishing	**113**	111	**113**	111
Government, administration and defence	**911**	1,108	**911**	1,108
Manufacturing	**724**	711	**724**	711
Mining	**65**	71	**65**	71
Property	**2,868**	2,724	**2,868**	2,724
Services	**3,519**	3,315	**3,519**	3,315
Trade	**935**	948	**935**	948
Transport and storage	**230**	272	**230**	272
Utilities	**236**	196	**236**	196
Retail	**15,663**	14,309	**15,663**	14,309
Other	**4,168**	4,168	**3,947**	3,156
Subtotal	**53,586**	48,875	**37,058**	35,301
Due to related entities[2]	**1,173**	513	**25,647**	21,572
Total funding	**54,759**	49,388	**62,705**	56,873

1 The geographic region used for debt issues is the location of the original purchaser. These instruments may have subsequently been on-sold.
2 Amounts due to related entities, as presented above, are in respect of intra group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

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

Note 39 Concentration of credit exposures

	The Banking Group		The Bank	
	2011 $m	2010 $m	**2011 $m**	2010 $m
On-balance sheet credit exposures consists of				
Cash and balances with central banks	**1,215**	522	**1,215**	522
Due from financial institutions	**699**	3	**699**	-
Derivative financial instruments	**85**	17	**85**	17
Trading securities	**3,261**	2,587	**3,261**	2,587
Available-for-sale securities	**1,518**	44	**1,518**	44
Loans	**51,250**	50,034	**51,107**	49,875
Due from related entities	**1,517**	830	**9,511**	8,331
Other assets	**148**	143	**129**	142
Total on-balance sheet credit exposures	**59,693**	54,180	**67,525**	61,518
Analysis of on-balance sheet credit exposures by geographical areas				
New Zealand	**57,644**	53,744	**65,476**	61,082
Australia	**1,174**	136	**1,174**	136
United States of America	**270**	76	**270**	76
Other	**605**	224	**605**	224
Total on-balance sheet credit exposures	**59,693**	54,180	**67,525**	61,518
Analysis of on-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**535**	534	**535**	534
Agriculture	**5,730**	5,581	**5,730**	5,581
Construction	**1,243**	1,360	**1,243**	1,360
Finance and insurance	**4,307**	2,268	**4,307**	2,265
Forestry and fishing	**142**	137	**142**	137
Government, administration and defence	**3,925**	2,308	**3,925**	2,308
Manufacturing	**1,299**	1,294	**1,299**	1,294
Mining	**69**	76	**69**	76
Property	**8,760**	8,740	**8,750**	8,730
Property services and business services	**1,650**	1,509	**1,650**	1,509
Services	**2,318**	2,322	**2,318**	2,322
Trade	**2,473**	2,358	**2,473**	2,357
Transport and storage	**778**	775	**778**	775
Utilities	**212**	223	**212**	223
Retail lending	**25,192**	24,474	**25,054**	24,322
Other	**81**	96	**81**	96
Subtotal	**58,714**	54,055	**58,566**	53,889
Provisions for impairment charges on loans	**(573)**	(729)	**(569)**	(725)
Due from related entities	**1,517**	830	**9,511**	8,331
Other assets	**35**	24	**17**	23
Total on-balance sheet credit exposures	**59,693**	54,180	**67,525**	61,518
Off-balance sheet credit exposures				
Contingent liabilities and commitments	**12,581**	11,606	**12,512**	11,468
Total off-balance sheet credit exposures	**12,581**	11,606	**12,512**	11,468
Analysis of off-balance sheet credit exposures by industry sector				
Accommodation, cafes and restaurants	**79**	70	**79**	70
Agriculture	**452**	359	**452**	359
Construction	**491**	445	**491**	445
Finance and insurance	**451**	345	**451**	345
Forestry and fishing	**57**	54	**57**	54
Government, administration and defence	**442**	382	**442**	382
Manufacturing	**504**	498	**504**	498
Mining	**13**	13	**13**	13
Property services and business services	**925**	853	**925**	853
Trade	**907**	852	**907**	852
Transport and storage	**104**	106	**104**	106
Utilities	**74**	44	**74**	44
Retail lending	**8,082**	7,585	**8,013**	7,447
Total off-balance sheet credit exposures	**12,581**	11,606	**12,512**	11,468

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

Note 39 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

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

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

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

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

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

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

Note 40 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 Bank's conditions of registration and the Reserve Bank document 'Connected exposures policy' (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2011 and then dividing that amount by the Banking Group's Tier One Capital as at 30 September 2011.

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. 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 30 September 2011 $m	Peak End-of-day for the Year Ended 30 September 2011 $m
Credit exposures to connected persons:		
On gross basis, before netting	**2,321**	**2,868**
As a percentage of Tier One Capital of the Banking Group at end of the year	**61.5%**	**75.9%**
Amount that has been netted off in determining the net exposure	**1,199**	**858**
As a percentage of Tier One Capital of the Banking Group at end of the year	**31.7%**	**22.7%**
On partial bilateral net basis	**1,122**	**2,010**
As a percentage of Tier One Capital of the Banking Group at end of the year	**29.7%**	**53.2%**
Credit exposures to non-bank connected persons	**-**	**-**
As a percentage of Tier One Capital of the Banking Group at end of the year	**0.0%**	**0.0%**

As at 30 September 2011, the rating-contingent limit applicable to the Banking Group was 70% 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. The rating-contingent limit applicable to the Banking Group changed from 75% to 70% on 27 May 2011. This was due to a credit rating downgrade by Moody's Investors Service from Aa2 to Aa3.

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 year ended 30 September 2011.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with a syndicate of banks. These arrangements are called risk lay-off arrangements. As at 30 September 2011, the Banking Group had no aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 30 September 2011.

Note 41 Events after the reporting date

41.1 Transfer of additional banking operations to the Bank

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 Ultimate Parent Bank are consistent with these operating model arrangements.

Following an independent review of the structure of the operating model of the Ultimate Parent Bank's business in New Zealand, the Reserve Bank, the Bank and the Ultimate Parent Bank reached agreement on changes to the operating model. On 1 November 2011, assets and liabilities associated with certain business activities formerly conducted by the NZ Branch were transferred to the Bank. The transfer occurred pursuant to the Westpac New Zealand Act 2011.

The following business activities were transferred to the Bank:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade financing activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

The NZ Branch has retained:

- 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;
- trading of capital markets products and foreign exchange as principal;
- global intra-group financing functions;
- correspondent bank relationships;
- debt securities team activities, such as arrangement of commercial paper and bond programmes; and
- international business, including trade finance activities but excluding customer foreign currency accounts.

The acquisition involved the transfer to the Bank of $6,446 million of assets consisting primarily of loans to corporate customers ($6,336 million) and $5,303 million of liabilities consisting primarily of deposits ($5,060 million). For the financial year ended 30 September 2011, the business activities transferred from the NZ Branch to the Bank accounted for net operating income of $166 million (30 September 2010: $163 million) and profit after income tax expense of $114 million (30 September 2010: $103 million).

Funding of acquisition

To fund the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch (as well as the additional liquid assets required to be held by the Banking Group as a result of the transfer), a loan of $3.1 billion was provided to the Bank by the NZ Branch and the Bank raised $1,130 million in additional share capital.

The loan is for a period of 3 years and has been priced at BKBM plus a margin that reflected market pricing on 1 November 2011.

The Bank issued a total of 1,130 million additional ordinary shares for $1 per share to the Bank's immediate parent company, WNZGL in connection with the transfer. On 28 October 2011, the Bank issued 900 million ordinary shares for $1 per share, and on 31 October 2011, the Bank issued an additional 230 million ordinary shares for $1 per share. Immediately prior to the issuance of these additional 230 million ordinary shares, the Bank paid a dividend to WNZGL of $230 million. These transactions were in accordance with the Banking Group's capital management policy.

Compliance with BS13 requirements (unaudited)

As a result of the transfer of the business activities set out above, the Banking Group is required to hold additional liquid assets in order to comply with Reserve Bank document *Liquidity Policy* (BS13). These liquid assets were acquired through a combination of on market purchases and a purchase of liquid assets from the NZ Branch. The Banking Group was compliant with BS13 immediately following the transfer on 1 November 2011.

Note 41 Events after the reporting date (continued)

Asset and liabilities transferred from the NZ Branch to the Bank

	Assets and Liabilities Transferred as at 1 November 2011 $m
Assets	
Cash and balances with central banks	58
Loans	6,336
Deferred tax assets	28
Other assets	24
Total assets	6,446
Liabilities	
Due to other financial institutions	212
Deposits	5,060
Provisions	12
Other liabilities	19
Total liabilities	5,303
Net assets acquired	1,143

Contingent liabilities and commitments transferred from the NZ Branch to the Bank

	The Bank As at 1 November 2011 $m
Contingent liabilities and commitments	
Transaction-related contingent items	421
Short-term, self-liquidating trade-related contingent liabilities	107
Other commitments to provide financial services which have an original maturity of one year or more	3,982
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,482
Total contingent liabilities and commitments	6,992

Consideration paid for the businesses transferred from the NZ Branch to the Bank

	The Bank As at 1 November 2011 $m
Considerations transferred	
Intragroup payables	3,100
Trading securities	(1,957)
Total considerations transferred	1,143

41.2 Credit rating update

On 9 November 2011, Standard & Poor's released its new global bank rating criteria and BICRA methodology. Also on 9 November 2011, Standard & Poor's announced the BICRA score for New Zealand of three, down from a score of two under the previous methodology. On 1 December 2011, as a result of the Standard & Poor's bank rating criteria changes, the Bank's credit rating was lowered from AA to AA- with a 'stable' outlook.

Independent auditors' report

Independent Auditors' Report
To the shareholders of Westpac New Zealand Limited

Report on the Financial Statements (excluding Supplementary Information Relating to Capital Adequacy)

We have audited pages 25 to 102 of the Disclosure Statement of Westpac New Zealand Limited (the '**Bank**') which consists of the financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the '**Order**') and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 36 and 37) required by Schedules 4, 7, 13, 14, 15 and 17 of the Order. The financial statements comprise the balance sheets as at 30 September 2011, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Bank and the Banking Group. The '**Banking Group**' comprises the Bank and the entities it controlled at 30 September 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the 'Directors') are responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 36 and 37) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order and presented to us by the Directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Bank and Banking Group's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We carry out other assignments on behalf of the Bank and the Banking Group in the areas of taxation advice and other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Bank and the Banking Group. We have no other interests in the Bank, the Banking Group or Westpac Banking Corporation Group.

Opinion

In our opinion, the financial statements on pages 25 to 102 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and included within the balance sheets and Notes 13, 34, 35, 36, 37, 39 and 40):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Bank and the Banking Group as at 30 September 2011, and their financial performance and cash flows for the year then ended.

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheets and Notes 13, 34, 35, 37, 39 and 40:

(i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;

(ii) is in accordance with the books and records of the Bank and Banking Group; and

(iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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Report on Other Legal and Regulatory Requirements (excluding Supplementary Information Relating to Capital Adequacy)

We also report in accordance with the requirements of Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 and Clauses 2(d) and 2(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 36 and 37) for the year ended 30 September 2011:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Bank and the Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy required by Schedule 11 of the Order as disclosed in Notes 36 and 37 of the financial statements of the Bank and the Banking Group for the year ended 30 September 2011.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to capital adequacy that is prepared in accordance with the Bank's conditions of registration and the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and is disclosed in accordance with Schedule 11 of the Order.

Auditors' Responsibility

Our responsibility is to express an opinion on the supplementary information relating to capital adequacy, disclosed in Notes 36 and 37, based on our review.

We are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order

and for reporting our findings to you.

We conducted our review in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to capital adequacy disclosed in Notes 36 and 37 and, accordingly, we do not express an audit opinion on that supplementary information.

Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 36 and 37, as required by Schedule 11 of the Order, is not in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholders, as a body. Our work has been undertaken so that we might state to the Bank's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland

9 December 2011

Westpac New Zealand Limited