



Westpac Banking Corporation's general disclosure statement

for the six months ended 31 March 2006

Index	1	General information and definitions
	1	General matters
	2	Registered bank: directorate and advisers
	4	Credit ratings
	4	Financial statements of the Overseas Bank and the Overseas Banking Group
	5	Historical summary of financial statements
	6	Market risk
	6	Guarantee arrangements
	6	Ranking of local creditors in a winding-up
	7	Pending proceedings or arbitration
	7	Local incorporation
	7	Conditions of registration
	8	Directors' statement
	9	Financial statements
	100	Auditors' report

General information and definitions

The information contained in this General Disclosure Statement is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

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

- Westpac Banking Corporation Group (otherwise referred to as the **'Overseas Banking Group'**) - refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.
- Westpac Banking Corporation (otherwise referred to as the **'Overseas Bank'**) - refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities.
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the **'NZ Banking Group'**) - refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in financial statements for the Overseas Banking Group's New Zealand business. The NZ Banking Group includes the following subsidiary entities:
 - Westpac Group Investment - NZ - Limited - Holding company
 - Westpac Holdings - NZ - Limited - Holding company
 - Augusta (1962) Limited and its subsidiary company - Holding company
 - BT Financial Group (NZ) Limited and its subsidiary company - Holding company
 - TBNZ Limited and its subsidiary companies - Holding company
 - The Home Mortgage Company Limited - Residential mortgage company
 - The Warehouse Financial Services Limited - Financial services company
 - Westpac Capital - NZ - Limited and its subsidiary companies - Holding company
 - Westpac Finance Limited - Finance company
 - Westpac Financial Services Group - NZ - Limited and its subsidiary companies - Holding company
 - Westpac (NZ) Investments Limited - Property owning and capital funding company
 - WestpacTrust Securities NZ Limited - Funding company
 - BLE Capital (NZ) Limited - Finance company
 - Hastings Forestry Investments Limited - Non-trading company
 - Tasman Funding No. 1 and its jointly owned subsidiary company - Funding entity
 - Tasman Funding No. 2 and its jointly owned subsidiary company - Funding entity
 - Westpac NZ Funding - Funding entity
 - Westpac New Zealand Limited - Non-trading company
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the **'NZ Bank'**) - refers to the New Zealand operations of Westpac Banking Corporation (trading as Westpac and Westpac Institutional Bank).

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2005 and the six months ended 31 March 2006, respectively.

All amounts referred to in this General Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

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

Overseas Bank

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

The Overseas Bank's principal office is located at 60 Martin Place, Sydney, New South Wales 2000, Australia.

Registered bank: directorate and advisers

Directors

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

Name: Leonard Andrew Davis, AO, ASA/T, DSc (h.c.), FRACI, FAustIMM
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of each of Huysmans Pty Limited and Trouin Pty Limited; President of the Walter and Eliza Hall Institute of Medical Research; and Member of each of Temasek International Panel and the South Australian Mineral & Petroleum Group.

Name: David Raymond Morgan, BEc, MSc, PhD
Non-Executive: No
Country of Residence: Australia
Primary Occupation: Chief Executive Officer
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: No

External Directorships: Chairman of the Australian Bankers' Association.

Name: Gordon McKellar Cairns, MA (Hons.)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of each of Seven Network Limited and Opera Australia; and Member of the Asia Pacific Advisory Board of CVC Capital Partners, Caliburn Partnership and Centre for Independent Studies.

Name: David Alexander Crawford, BCom, LLB, FCA, FCPA
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 each of Lend Lease Corporation Limited and the Australian Ballet; Director of each of BHP Billiton Limited and Foster's Group Limited; and Treasurer of the Melbourne Cricket Club.

Name: Edward Alfred Evans, AC, BEcon, DUni(Grif)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of IBT Education Limited.

Name: Carolyn Judith Hewson, BEc (Hons.), MA (Econ.)
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: No
Independent Director: Yes

External Directorships: Director of the Australian Gaslight Company; Board and advisory roles with the Royal Humane Society, YWCA NSW, the Australian Charities Fund and The Neurosurgical Research Foundation.

Name: Helen Ann Lynch, AM
Non-Executive: Yes
Country of Residence: Australia
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Director of Pacific Brands Limited and Member of the Advisory Board of each of Caliburn Partnership and Mallesons Stephen Jacques.

Name: Peter David Wilson, CA
Non-Executive: Yes
Country of Residence: New Zealand
Primary Occupation: Director
Secondary Occupations: None
Board Audit Committee Member: Yes
Independent Director: Yes

External Directorships: Chairman of Evergreen Forests Limited and Global Equities Market Securities Limited; Director of each of Port of Napier Limited, The Colonial Motor Company Limited and Hill Country Corporation Limited; and Member of the New Zealand Exchange Limited Discipline Body.

The contact address for each of the Directors above is the same as that noted below under the heading New Zealand Chief Executive Officer/Responsible Person.

New Zealand Chief Executive Officer/Responsible Person

The New Zealand Chief Executive Officer, Ann Sherry has been authorised in writing by each Director named on pages 2 and 3, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this General Disclosure Statement on the Directors' behalf. Accordingly Ann Sherry is a Responsible Person under the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand). The following disclosures are made in relation to Ann Sherry in her capacity as New Zealand Chief Executive Officer and as a Responsible Person:

Name: Ann Sherry, AO, BA, GradDipIR, MAICD, SF Fin, FIPAA
Chief Executive Officer, Westpac New Zealand
Country of Residence: New Zealand
Primary Occupation: Chief Executive Officer
Secondary Occupations: None

External Directorships: Director of each of Indigenous Enterprise Partnerships, Visa International Asia Pacific and Salvation Communications Proprietary Limited and Trustee of Sir Peter Blake Trust.

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

Conflicts of interest policy

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

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

Interested transactions

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

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

Solicitors

Simpson Grierison
HSBC Tower
195 Lambton Quay
Wellington, New Zealand

Auditors

Overseas Banking Group
PricewaterhouseCoopers
201 Sussex Street
Sydney, NSW 1171
Australia

New Zealand Banking Group
PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars. There have been no changes to these credit ratings in the two preceding years.

These credit ratings are given without any qualifications:

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

Descriptions of credit rating scales

	Standard & Poor's	Moody's Investors Service	Fitch Ratings
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC
Obligations currently in default.	D	-	C

Credit ratings by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus (higher end) or minus (lower end) sign.

Moody's Investors Service apply numeric modifiers 1 (higher end), 2, 3 (lower end) to ratings from Aa to B to show relative standing within major categories.

Ratings stated in **bold** indicate the Overseas Bank's current approximate position within the Credit Rating Scales.

Financial statements of the Overseas Bank and the Overseas Banking Group

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

The most recent publicly available financial statements for the Overseas Bank and the Overseas Banking Group can also be accessed at the internet address www.westpac.com.au.

Historical summary of financial statements

	NZ Banking Group						
	Six Months Ended 31 March 2006 Unaudited NZ IFRS \$m	Year Ended 30 September 2005 Audited NZ IFRS ¹ \$m	Year Ended 30 September 2005 Audited NZ IFRS ^{2,3} \$m	Year Ended 30 September 2004 Audited NZ IFRS ^{4,5} \$m	Year Ended 30 September 2003 Audited NZ IFRS ^{6,7,8} \$m	Year Ended 30 September 2002 Audited NZ IFRS ^{6,8} \$m	Year Ended 30 September 2001 Audited NZ IFRS ^{7,8} \$m
Income statement							
Interest income	1,779	3,081	2,986	2,596	2,368	2,075	2,326
Interest expense	(1,206)	(2,019)	(1,892)	(1,499)	(1,335)	(1,160)	(1,501)
Net interest income	573	1,062	1,094	1,097	1,033	915	825
Non-interest income	270	545	593	591	538	596	469
Net operating income	843	1,607	1,687	1,688	1,571	1,511	1,294
Operating expenses	(340)	(680)	(726)	(731)	(699)	(685)	(639)
Impairment losses on loans	(6)	(44)	(44)	(39)	(205)	(40)	(45)
Operating profit before income tax expense	497	883	917	918	667	786	610
Income tax expense	(162)	(216)	(292)	(297)	(203)	(168)	(131)
Operating profit after income tax expense	335	667	625	621	464	618	479
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	(2)	(5)	(14)	(4)	(2)	(4)	(14)
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	333	662	611	617	462	614	465
Remittance to the Overseas Bank	-	(333)	(333)	(350)	-	(200)	(67)
Dividends paid or provided for on ordinary share capital	-	-	-	-	(180)	(150)	(105)
Dividends paid or provided for on subordinated capital instruments (net of tax)	-	-	-	-	(27)	(41)	(71)
Dividends paid or provided for on convertible debentures (net of tax)	(34)	(107)	(107)	(138)	(64)	(33)	(33)
Dividends paid or provided for on NZ Class shares	-	(54)	(54)	(50)	(44)	(44)	(19)
Operating profit retained	299	168	117	79	147	146	170
Balance sheet							
Total assets	54,064	45,336	45,050	42,491	39,945	37,458	38,178
Total impaired assets	52	80	80	58	71	92	146
Total liabilities	50,469	41,370	41,072	38,064	34,920	33,148	34,330
Total head office account	1,396	1,090					
Total head office account and equity	3,595	3,966	3,978	4,427	5,025	4,310	3,848

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

Certain comparative figures have been restated to ensure consistent treatment with the current financial period.

- ¹ The NZ Banking Group adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) with effect from 1 October 2005. NZ IFRS data for the year ended 30 September 2005 excludes adjustments arising from financial instruments in NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* as permitted by the transitional rules and an election was made to exclude these adjustments in the transition year. The primary adjustments relate to superannuation, cessation of goodwill amortisation and consolidation of special purpose vehicles. A full explanation of the transition to NZ IFRS is provided in Note 47 to the financial statements included in this General Disclosure Statement.
- ² During the year ended 30 September 2005: (a) the NZ Banking Group redeemed all of the NZ Class shares on issue for \$618 million; (b) the NZ Banking Group disposed of several subsidiaries which reduced the NZ Banking Group's outside minority interest by \$659 million; and (c) the NZ Bank received \$698 million of branch capital from the Overseas Banking Group.
- ³ During the year ended 30 September 2004 the NZ Bank redeemed \$586 million of convertible debentures (net of issue costs) issued to the Chase Manhattan Bank as trustee of the Tavarua Funding Trust.
- ⁴ During the year ended 30 September 2003, the Overseas Bank derecognised a central general provision previously held in respect of the NZ Banking Group. This led to the NZ Banking Group recognising an additional general provision in New Zealand of \$178 million relating to its credit exposures.
- ⁵ During the year ended 30 September 2003: (a) the NZ Bank issued \$1,994 million of convertible debentures (net of issue costs), \$715 million of which were issued to Westpac Financial Services Limited as responsible entity of Westpac Second Trust and \$1,279 million to JP Morgan Chase Bank as trustee of Tavarua Funding Trust III; (b) the NZ Bank redeemed \$600 million of branch capital; and (c) the NZ Bank redeemed \$900 million of subordinated capital instruments issued to Westpac Overseas Funding Pty Limited.
- ⁶ The NZ Banking Group's non-interest income for the year ended 30 September 2002 included a gain on sale of the assets and liabilities of Australian Guarantee Corporation (N.Z.) Limited (now known as Augusta (1962) Limited). The total gain on sale was \$105 million, net of transactional and disposal costs.
- ⁷ During the year ended 30 September 2001: (a) Westpac Capital NZ Limited redeemed all of the \$400 million of subordinated capital instruments it had issued to Westpac Overseas Funding Pty Limited; and (b) the Overseas Bank made a capital contribution of \$600 million to the NZ Bank.
- ⁸ These numbers are not prepared under NZ IFRS (NZ IFRS 1 Para 37).

Market risk

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the eighth schedule (sub-clauses (1)(a), (8)(a) and (11)(a)) of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

The peak end-of-day exposures and as at exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the quarter, and then dividing that amount by the Overseas Banking Group's equity as at 31 March 2006 (31 March 2005 for comparatives).

	Peak End-of-Day For the Six Months Ended		Peak End-of-Day For the Six Months Ended	
	As at 31 March 2006 Unaudited \$m	As at 31 March 2006 Unaudited \$m	As at 31 March 2005 Unaudited \$m	As at 31 March 2005 Unaudited \$m
Aggregate interest rate exposure	205	311	152	210
As a percentage of the Overseas Banking Group's equity	1.20%	1.64%	0.86%	1.19%
Aggregate foreign currency exposure	5	5	2	7
As a percentage of the Overseas Banking Group's equity	0.03%	0.03%	0.01%	0.04%

The NZ Banking Group has no material exposure to equity risk.

Guarantee arrangements

No material obligations of the Overseas Bank are guaranteed.

Ranking of local creditors in a winding-up

There are material legislative restrictions in the Overseas Bank's country of incorporation which subordinate the claims of a class of unsecured creditors of the Registered Bank on the assets of the Overseas Bank to those of another class of unsecured creditors of the Overseas Bank, in a winding-up of the Overseas Bank.

The Banking Act 1959 in Australia gives priority over Australian assets of the Overseas Bank to Australian depositors. Accordingly, New Zealand depositors (together with all other senior unsecured creditors of the Overseas Bank) will rank after Australian depositors of the Overseas Bank in relation to claims against Australian assets.

However, the Westpac Banking Corporation Act 1982 (New Zealand) gives New Zealand depositors priority to the New Zealand assets of the Overseas Bank. Accordingly, New Zealand depositors will rank ahead of other unsecured creditors of the Overseas Bank in respect of claims against the New Zealand assets of the Overseas Bank.

The legislation described below is relevant to limitations on possible claims made by unsecured creditors of the NZ Bank on the assets of the Overseas Bank relative to those of any other class of unsecured creditors of the Overseas Bank, in the event of a winding-up of the Overseas Bank.

The Overseas Bank is an authorised deposit-taking institution (ADI) for the purposes of the Banking Act 1959 (Australia). Section 13A(3) of that Act states:

"If an ADI becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet that ADI's deposit liabilities in Australia in priority to all other liabilities of the ADI."

Section 13A(3) of the Banking Act 1959 (Australia) affects all of the unsecured deposit liabilities of the NZ Bank which as at 31 March 2006 amounted to \$28,188 million (31 March 2005 \$26,815 million; 30 September 2005 \$27,664 million).

Section 13A(4) of the Banking Act 1959 (Australia) provides that it is an offence for an ADI not to hold assets (other than goodwill) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless the Australian Prudential Regulation Authority has authorised the ADI to hold assets of a lesser value. The Overseas Bank has at all times during the six months ended 31 March 2006, held assets (other than goodwill) in Australia of not less than the value of the Overseas Bank's total deposit liabilities in Australia.

The requirements of these sections have the potential to impact on the management of the liquidity of the NZ Banking Group.

Section 23 of the Westpac Banking Corporation Act 1982 (New Zealand) provides that:

"Deposit liabilities -

- (1) Except as otherwise authorised by the Reserve Bank of New Zealand, the Continuing Bank shall at all times hold in New Zealand assets (other than goodwill) of not less than the value of the total of the Continuing Bank's deposit liabilities in New Zealand.
- (2) In the event of the Continuing Bank becoming unable to meet its obligations or suspending payment, the assets of the Continuing Bank in New Zealand shall be available to meet the Continuing Bank's deposit liabilities in New Zealand in priority to all other liabilities of the Continuing Bank.
- (3) Every person who acts in contravention of or fails to comply with subsection (1) of this section commits an offence and is liable on conviction on indictment to a fine not exceeding \$25,000 and, if the offence is a continuing one, to a further fine not exceeding \$2,000 for every day on which the offence has continued.
- (4) Nothing in this section limits the provisions of the Reserve Bank of New Zealand Act 1989."

During the six months ended 31 March 2006, the NZ Bank has at all times held in New Zealand assets (other than goodwill) of not less than the value of the NZ Bank's total deposit liabilities in New Zealand. The Overseas Bank is the 'Continuing Bank' within the meaning of section 23.

Pending proceedings or arbitration

There are two legal proceedings pending at the date of this General Disclosure Statement that may have a material adverse effect on the NZ Banking Group or the NZ Bank. The New Zealand Commerce Commission has filed proceedings against the NZ Bank and The Warehouse Financial Services Limited under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. In addition, proceedings have been filed by the NZ Bank against the New Zealand Inland Revenue Department (NZIRD) in which the NZ Bank is disputing the tax assessments received on 30 September 2004, 31 March 2005 and 30 March 2006 from the NZIRD in relation to its investigation of certain structured finance transactions. A description of the Commerce Commission proceedings, the NZIRD investigation and various contingent liabilities of the NZ Banking Group and the NZ Bank is set out in Note 31 to the financial statements included in this General Disclosure Statement.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2005 Annual Financial Report and the 31 March 2006 Interim Financial Report.

Local incorporation

The Reserve Bank of New Zealand's (Reserve Bank) policy is that all systemically important banks must incorporate as a local entity rather than operate via a branch. In December 2004, the Board of the Overseas Bank announced that the key operations in New Zealand would be locally incorporated. The Overseas Bank received agreement in principle from the Reserve Bank on its proposed incorporation model on 27 October 2005. The Westpac New Zealand Bill, designed to facilitate the incorporation process for a substantial part of the Overseas Bank's New Zealand assets, was introduced into Parliament in March 2006. The Bill had its first reading on 29 March 2006 and is now before the Finance and Expenditure Select Committee.

Conditions of registration

The conditions of registration imposed on the NZ Bank, which applied from 1 July 2004, are as follows:

1. That the NZ Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
2. That the NZ Banking Group's insurance business is not greater than one percent of its total consolidated assets. For the purposes of this condition:
 - (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disappplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
 - (ii) In measuring the size of the NZ Banking Group's insurance business:
 - (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the Group headed by that entity;
 - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the Group headed by the latter entity;
 - (b) otherwise, the size of each insurance business conducted by any entity within the NZ Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
 - (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the NZ Banking Group. All amounts in parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
 - (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.
3. That the business of the NZ Bank does not constitute a predominant proportion of the business of the Overseas Bank.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the NZ Bank shall be made unless:
 - (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) the Reserve Bank has advised that it has no objection to that appointment.
5. That the Overseas Bank complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That the Overseas Bank complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
 - tier one capital of the Overseas Bank is not less than four percent of risk weighted exposures;
 - capital of the Overseas Bank is not less than eight percent of risk weighted exposures.

For the purposes of these conditions of registration, the term 'NZ Banking Group' means the New Zealand operations of Westpac Banking Corporation and all those subsidiaries of Westpac Banking Corporation whose business is required to be reported in financial statements for the group's New Zealand business, prepared in accordance with section 9(2) of the Financial Reporting Act 1993.

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

Directors' statement

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

- a. the Disclosure Statement contains all information that is required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand); and
- b. the Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, Westpac New Zealand believes, after due enquiry, that, over the six months ended 31 March 2006:

- a. the NZ Bank had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and those systems were being properly applied; and
- b. the NZ Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989.

This Directors' Statement has been signed on behalf of the Directors by Ann Sherry who also signs in her personal capacity as Chief Executive Officer, Westpac New Zealand.

A handwritten signature in black ink, appearing to read 'Ann Sherry', followed by a period.

Dated this the 4th day of May 2006.

Financial statements

Contents	10	Income statements
	11	Statements of changes in equity
	13	Balance sheets
	14	Statements of cash flows
	16	Notes to the financial statements
	100	Auditors' report

Income statements for the six months ended 31 March 2006

	Note	NZ Banking Group			NZ Bank		
		Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Interest income	3	1,779	1,450	3,081	1,718	1,481	3,111
Interest expense	3	(1,206)	(956)	(2,019)	(1,205)	(1,058)	(2,236)
Net interest income		573	494	1,062	513	423	875
Non-interest income:							
Fees and commissions	4	182	222	439	181	223	440
Wealth management revenue	4	34	31	66	-	-	-
Trading income	4	52	38	28	52	38	28
Gain on ineffective hedges	4	1			1		
Gain/(loss) from available-for-sale securities	4	-					
Other non-interest income	4	1	9	12	13	12	23
Total non-interest income		270	300	545	247	273	491
Net operating income		843	794	1,607	760	696	1,366
Operating expenses	5	(340)	(333)	(680)	(351)	(389)	(746)
Impairment losses on loans	6	(6)	(21)	(44)	(5)	(20)	(44)
Operating profit before income tax expense		497	440	883	404	287	576
Income tax expense	7	(162)	(92)	(216)	(116)	(39)	(129)
Operating profit after income tax expense		335	348	667	288	248	447
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(2)	(2)	(5)	-	-	-
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group		333	346	662	288	248	447

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Statements of changes in equity for the six months ended 31 March 2006

	Head Office Account		NZ Banking Group Equity				Minority Interests \$m	Total \$m
	Branch Capital \$m	Retained Profits \$m	Share Capital \$m	Retained Profits \$m	Cash Flow Hedge Reserve \$m	Convertible Debentures \$m		
Previously reported balance as at 30 September 2004 (audited)	-	430	132	635		1,994	1,236	4,427
Effect of transition to NZ IFRS	6	(55)	-	(27)		9	(650)	(717)
Adjusted opening balance as at 1 October 2004	6	375	132	608		2,003	586	3,710
Six months ended 31 March 2005								
Operating profit after income tax expense	-	248	-	98		-	2	348
Total recognised income and expenses for the six months ended 31 March 2005	-	248	-	98		-	2	348
Dividends:								
Dividends paid or provided for on convertible debentures (net of tax)	-	(53)	-	-		-	-	(53)
Dividends paid or provided for on NZ Class shares	-	-	-	(26)		-	-	(26)
Purchase of NZ Class shares – Treasury Stock	-	-	-	-		-	(1)	(1)
Share-based payments	2	-	-	-		-	-	2
As at 31 March 2005 (unaudited)	8	570	132	680		2,003	587	3,980
Year ended 30 September 2005								
Operating profit after income tax expense	-	447	-	215		-	5	667
Total recognised income and expenses for the year ended 30 September 2005	-	447	-	215		-	5	667
Dividends:								
Dividends paid or provided for on convertible debentures (net of tax)	-	(107)	-	-		-	-	(107)
Dividends paid or provided for on NZ Class shares	-	-	-	(54)		-	-	(54)
Branch capital received	698	-	-	-		-	-	698
Share-based payments	4	-	-	-		-	-	4
Redemption of NZ Class shares	-	-	-	(40)		-	(579)	(619)
Remittance to the Overseas Bank	-	(333)	-	-		-	-	(333)
As at 30 September 2005 (audited)	708	382	132	729		2,003	12	3,966
Adoption of NZ IAS 32/39	-	50	-	3	12	(719)	-	(654)
Adjusted opening balance as at 1 October 2005	708	432	132	732	12	1,284	12	3,312
Six months ended 31 March 2006								
Net change in available-for-sale investments (net of tax)	-	-	-	-	-	-	-	-
Change in cash flow hedges	-	-	-	-	(31)	-	-	(31)
Tax effect of change in cash flow hedges	-	-	-	-	10	-	-	10
Operating profit after income tax expense	-	288	-	45	-	-	2	335
Total recognised income and expenses for the six months ended 31 March 2006	-	288	-	45	(21)	-	2	314
Share capital issued	-	-	1	-	-	-	-	1
Dividends paid or provided for on convertible debentures (net of tax)	-	(34)	-	-	-	-	-	(34)
Share-based payments	2	-	-	-	-	-	-	2
As at 31 March 2006 (unaudited)	710	686	133	777	(9)	1,284	14	3,595

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Statements of changes in equity (continued) for the six months ended 31 March 2006

	Head Office Account		NZ Bank		Total
	Branch Capital \$m	Retained Profits \$m	Cash Flow Hedge Reserve \$m	Convertible Debentures \$m	
Previously reported balance as at 30 September 2004 (audited)	-	430	-	1,994	2,424
Effect of transition to NZ IFRS	6	(55)	-	9	(40)
Adjusted opening balance as at 1 October 2004	6	375	-	2,003	2,384
Six months ended 31 March 2005					
Operating profit after income tax expense	-	248	-	-	248
Total recognised income and expenses for the six months ended 31 March 2005	-	248	-	-	248
Dividends paid or provided for on convertible debentures (net of tax)	-	(53)	-	-	(53)
Share-based payments	2	-	-	-	2
As at 31 March 2005 (unaudited)	8	570	-	2,003	2,581
Year ended 30 September 2005					
Operating profit after income tax expense	-	447	-	-	447
Total recognised income and expenses for the year ended 30 September 2005	-	447	-	-	447
Dividends paid or provided for on convertible debentures (net of tax)	-	(107)	-	-	(107)
Branch capital received	698	-	-	-	698
Share-based payments	4	-	-	-	4
Remittance to the Overseas Bank	-	(333)	-	-	(333)
As at 30 September 2005 (audited)	708	382	-	2,003	3,093
Adoption of NZ IAS 32/39	-	50	12	(719)	(657)
Adjusted opening balance as at 1 October 2005	708	432	12	1,284	2,436
Six months ended 31 March 2006					
Net change in available-for-sale investments (net of tax)	-	-	-	-	-
Change in cash flow hedges	-	-	(31)	-	(31)
Tax effect of change in cash flow hedges	-	-	10	-	10
Operating profit after income tax expense	-	288	-	-	288
Total recognised income and expenses for the six months ended 31 March 2006	-	288	(21)	-	267
Dividends paid or provided for on convertible debentures (net of tax)	-	(34)	-	-	(34)
Share-based payments	2	-	-	-	2
As at 31 March 2006 (unaudited)	710	686	(9)	1,284	2,671

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Balance sheets as at 31 March 2006

	Note	NZ Banking Group			NZ Bank		
		31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Assets							
Cash		122	128	96	121	128	96
Due from other financial institutions	9	2,560	198	361	2,524	152	315
Derivative financial instruments	40	3,124	880	960	3,124	880	960
Other financial assets at fair value	10	1,550					
Other trading assets	10	3,827	3,514	4,127	3,821	3,514	4,127
Available-for-sale securities	11	450					
Loans	12, 13	39,127	38,485	37,286	38,608	34,336	36,795
Life insurance assets		78	66	64	-	-	-
Due from related entities	15	1,803	1,753	993	2,773	5,947	1,944
Investments in related entities	15	-	-	-	-	1,777	1,777
Goodwill and other intangible assets	16	664	641	653	594	571	583
Property, plant and equipment	17	96	103	107	25	25	30
Income tax receivable		-	56	46	-	46	20
Deferred tax assets	18	96	143	143	90	130	133
Other assets	19	567	273	500	540	228	475
Total assets		54,064	46,240	45,336	52,220	47,734	47,255
<i>Less:</i>							
Liabilities							
Due to other financial institutions	20	3,785	983	1,745	1,785	983	1,745
Deposits at fair value	21	2,823	3,345	3,847	2,823	3,345	3,847
Deposits at amortised cost	21	25,365	23,370	23,717	25,365	23,370	23,717
Derivative financial instruments	40	2,115	1,874	1,153	2,115	1,874	1,153
Other trading liabilities	22	470	602	345	470	602	345
Debt issues	23	11,910	9,750	8,553	-	100	100
Current tax liabilities		12	-	-	8	-	-
Deferred tax liabilities	24	-	15	9	-	14	9
Provisions	25	52	34	45	51	33	43
Other liabilities	26	720	511	596	663	442	524
Total liabilities excluding subordinated debentures and due to related entities		47,252	40,484	40,010	33,280	30,763	31,483
Subordinated debentures	28	1,518	741	758	1,518	741	758
Total liabilities excluding due to related entities		48,770	41,225	40,768	34,798	31,504	32,241
Due to related entities	15	1,699	1,035	602	14,751	13,649	11,921
Total liabilities		50,469	42,260	41,370	49,549	45,153	44,162
Net assets		3,595	3,980	3,966	2,671	2,581	3,093
<i>Represented by:</i>							
Head office account							
Branch capital		710	8	708	710	8	708
Retained profits		686	570	382	686	570	382
Total head office account		1,396	578	1,090	1,396	578	1,090
NZ Banking Group equity							
Ordinary share capital		133	132	132	-	-	-
Retained profits		777	680	729	-	-	-
Cash flow hedge reserve		(9)			(9)		
Convertible debentures	29	1,284	2,003	2,003	1,284	2,003	2,003
Total NZ Banking Group equity		2,185	2,815	2,864	1,275	2,003	2,003
Minority interests							
NZ Class shares	30	-	578	-	-	-	-
Other minority interests		14	9	12	-	-	-
Total minority interests		14	587	12	-	-	-
Total head office account and equity		3,595	3,980	3,966	2,671	2,581	3,093

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Statements of cash flows for the six months ended 31 March 2006

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Cash flows from operating activities						
Interest income received	1,780	1,447	3,095	1,720	1,472	3,091
Interest paid	(1,200)	(949)	(1,971)	(1,209)	(1,054)	(2,211)
Other non-interest income received	304	308	536	275	272	472
Net (acquisition)/disposal of other trading assets	300	(703)	(1,316)	306	(703)	(1,316)
Net acquisition of other trading liabilities	125	418	161	125	418	161
Net (acquisition)/disposal of derivative financial instruments	(1,176)	278	(506)	(1,176)	277	(507)
Non-interest expenses paid	(319)	(365)	(658)	(350)	(432)	(733)
Income tax paid	(77)	(29)	(122)	(51)	(15)	(71)
Net cash flows from operating activities	(263)	405	(781)	(360)	235	(1,114)
Cash flows from investing activities						
Net decrease in due from other financial institutions - term	10	439	479	-	27	67
Net acquisition of other financial assets at fair value	(1,550)	-	-	-	-	-
Net acquisition of available-for-sale securities	(450)	-	-	-	-	-
Net loans advanced to customers	(1,724)	(3,104)	(1,928)	(1,699)	(2,905)	(5,391)
Net (acquisition)/disposal of life insurance assets	(12)	5	6	-	-	-
Net (increase)/decrease in due from related entities	(685)	(1,003)	(243)	(704)	(1,015)	2,988
Net (increase)/decrease in other assets	(169)	46	(180)	(161)	42	(175)
Purchase of property, plant and equipment	(6)	(11)	(28)	(1)	(5)	(13)
Purchase of capitalised computer software	(26)	(16)	(46)	(26)	(16)	(46)
Proceeds from disposal of property, plant and equipment	3	7	6	1	5	3
Proceeds from disposal of investments in related entities	-	-	-	1,777	-	-
Net cash used in investing activities	(4,609)	(3,637)	(1,934)	(813)	(3,867)	(2,567)
Cash flows from financing activities						
Issue of ordinary share capital	1	-	-	-	-	-
Purchase of NZ Class shares - Treasury Stock	-	(1)	(1)	-	-	-
Redemption of NZ Class shares	-	-	(618)	-	-	-
Branch capital received	-	-	698	-	-	698
Net increase/(decrease) in due to other financial institutions - term	480	(255)	629	(1,520)	(255)	629
Net increase in deposits	624	1,395	2,244	624	1,395	2,244
Net proceeds from debt issues/(redemptions)	3,338	1,789	592	(89)	(100)	(100)
Net increase/(decrease) in due to related entities	1,002	237	(196)	2,736	2,447	724
Net increase/(decrease) in other liabilities	153	(142)	(108)	147	(90)	(43)
Payment of dividends on convertible debentures	(51)	(79)	(159)	(51)	(79)	(159)
Payment of dividends on NZ Class shares	-	(26)	(54)	-	-	-
Remittance to the Overseas Bank	-	-	(333)	-	-	(333)
Net cash provided by financing activities	5,547	2,918	2,694	1,847	3,318	3,660

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Statements of cash flows (continued) for the six months ended 31 March 2006

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Net increase/(decrease) in cash and cash equivalents	675	(314)	(21)	674	(314)	(21)
Cash and cash equivalents at beginning of the period	187	208	208	186	207	207
Cash and cash equivalents at end of the period	862	(106)	187	860	(107)	186
Cash and cash equivalents comprise						
Cash	122	128	96	121	128	96
Due from other financial institutions - at call	2,525	113	316	2,524	112	315
Due to other financial institutions - at call	(1,785)	(347)	(225)	(1,785)	(347)	(225)
Cash and cash equivalents at end of the period	862	(106)	187	860	(107)	186
Reconciliation of operating profit after income tax expense to net cash flows from operating activities						
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	333	346	662	288	248	447
<i>Adjustments:</i>						
Amortisation of intangible assets	15	21	39	15	21	39
Impairment losses on loans	6	21	44	5	20	44
Depreciation/amortisation	15	15	29	5	5	10
Gain on sale of property, plant and equipment	(1)	(1)	(1)	-	-	-
Share-based payments	2	2	4	2	2	4
Intragroup minority interests in subsidiary companies	2	2	5	-	-	-
Movement in accrued assets	38	8	7	32	(6)	(36)
Movement in accrued liabilities	(7)	(66)	(3)	(16)	(62)	(19)
Movement in income tax provisions	58	38	42	27	(11)	7
Tax on convertible debentures dividends	17	26	52	17	26	52
Net acquisition/(disposal) of other trading assets	300	(703)	(1,316)	306	(703)	(1,316)
Net acquisition of other trading liabilities	125	418	161	125	418	161
Net acquisition/(disposal) of derivative financial instruments	(1,166)	278	(506)	(1,166)	277	(507)
Net cash flows from operating activities	(263)	405	(781)	(360)	235	(1,114)

The accompanying notes (numbered 1 to 47) form part of, and should be read in conjunction with, these financial statements.

Adoption of NZ IFRS on 1 October 2005 has resulted in changes in accounting policies. As explained in the statement of accounting policies under the heading 'Basis of preparation' some numbers this period are not comparable to prior periods. Refer to Note 47 for an explanation of the changes.

Notes to the financial statements

Note 1 Statement of accounting policies

General accounting policies

Statutory base

These financial statements are prepared and presented in accordance with the Financial Reporting Act 1993 (New Zealand), the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand), the Reserve Bank of New Zealand Act 1989, applicable New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the Accounting Standards Review Board, as appropriate for profit-oriented entities. These financial statements are the first half-year financial statements to be prepared by the NZ Banking Group and the NZ Bank in accordance with NZ IFRS. Reconciliations and descriptions of the impact of the transition from previous New Zealand Generally Accepted Accounting Practice (NZ GAAP) using New Zealand Financial Reporting Standards (NZ FRS) to NZ IFRS on the NZ Banking Group's reported balance sheet, income statement and statement of cash flows are provided in Note 47.

Compliance with NZ IFRS ensures that the financial report, comprising the financial statements and accompanying notes of the NZ Banking Group and the NZ Bank comply with International Financial Reporting Standards.

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

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

These financial statements were authorised for issue by the Board of Directors on 2nd May 2006.

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 liabilities held for trading and all derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand currency unless otherwise stated.

NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The NZ Banking Group has made the following elections in accordance with NZ IFRS 1:

- not to apply NZ IFRS 3 *Business Combinations* retrospectively to any past business combinations (business combinations that occurred before the date of transition to NZ IFRS);
- to recognise all cumulative superannuation plan actuarial gains and losses at the date of transition to NZ IFRS and to use the 'corridor' approach for later actuarial gains and losses;
- to apply NZ IFRS 2 *Share-based Payment* retrospectively for all options and performance share rights not yet vested as at the date of transition to NZ IFRS, even if granted on or before 7 November 2002; and
- not to apply NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* for comparative information.

The accounting policies have been consistently applied by the NZ Banking Group for all the financial years presented in these financial statements and in preparing an opening NZ IFRS balance sheet as at 1 October 2004 for the purpose of transition to NZ IFRS, except for the adoption of NZ IAS 32 and NZ IAS 39. The NZ Banking Group has continued to apply previous NZ GAAP in the comparative information to financial instruments within the scope of these standards. The date of transition to NZ IAS 32 and NZ IAS 39 was 1 October 2005. The nature of the changes in accounting policies that would make the information comply with these standards is disclosed in Note 47.

Early adoption

The NZ Banking Group has elected to apply NZ IAS 19 *Employee Benefits* (issued May 2005) to the annual reporting period beginning 1 October 2005. This includes applying NZ IAS 19 to the comparatives in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The NZ Banking Group has also elected to apply NZ IAS 39 (issued January 2005) to the annual reporting period beginning 1 October 2005 and has elected not to restate comparatives in accordance with the provisions of NZ IFRS 1.

Note 1 Statement of accounting policies (continued)

Basis of aggregation

The NZ Banking Group has been aggregated by combining the sum of the capital and reserves of the NZ Bank, BLE Capital (NZ) Limited, Hastings Forestry Investments Limited and the consolidated capital and reserves of Westpac Group Investment - NZ - Limited, BT Financial Group (NZ) Limited, Tasman Funding No. 1, Tasman Funding No. 2, Westpac NZ Funding and Westpac Financial Services Group - NZ - Limited and their subsidiary companies. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

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

Foreign currency

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

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the NZ Banking Group have been included in the income statement in operating profit.

Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments, measured at amortised cost, or those classified as available-for-sale securities is recognised in the income statement using the effective interest method. Interest income for instruments measured at fair value through profit or loss is recognised using the yield to maturity method, based on the actual yield applicable at the time of acquisition.

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

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

Fee and commission income

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

Trading income

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

Gain or loss on sale of property, plant and equipment

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

Expense recognition

Interest expense

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

Leasing

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

Commissions and other fees

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

Note 1 Statement of accounting policies (continued)

Share-based compensation - options and performance share rights

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

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

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

Taxation

Income tax

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

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

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

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

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

Goods and services tax

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

Acquisition of assets

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

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

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

Assets

Financial assets

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

Financial assets at fair value through profit or loss

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

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

Loans

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

Note 1 Statement of accounting policies (continued)

Available-for-sale

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

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

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

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

Cash and balances with central banks

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

Due from other financial institutions

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

Derivative financial instruments

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

Other financial assets at fair value

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

Other trading assets

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

Available-for-sale securities

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

Loans

Loans include overdrafts, home loans, credit card and other personal lending, term loans, leasing and redeemable preference share finance. They are accounted for as loans. Refer above for accounting treatment of loans.

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

Impairment of financial assets

Impaired financial assets include:

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

Although not classified as impaired assets, assets that are in arrears for 90 or more consecutive days, but are well-secured are reported separately. These are known as 'past due assets'.

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

Note 1 Statement of accounting policies (continued)

Assets carried at amortised cost

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

- 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 NZ Banking Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the NZ Banking Group would not otherwise consider;
- 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 NZ Banking Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the NZ Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

Assets carried at fair value

The NZ Banking Group assesses as at each balance date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Investments in related entities

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

Note 1 Statement of accounting policies (continued)

Life insurance assets

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

Goodwill and other intangible assets

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

In respect of acquisitions prior to 1 October 2004, goodwill is recorded at deemed cost, which represents the amount recorded under previous NZ GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 October 2004 has not been reconsidered in preparing the opening NZ IFRS balance sheet as at 1 October 2004.

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash-generating units 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 tested for impairment as at 30 September 2005.

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

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

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

Property, plant and equipment

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

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

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

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

Impairment of non-financial assets

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

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

Liabilities

Financial liabilities

Financial liabilities are measured at amortised cost, except for derivatives and deposits at fair value, which are held at fair value through profit or loss.

Due to other financial institutions

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

Note 1 Statement of accounting policies (continued)

Deposits at fair value

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

Deposits at amortised cost

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

Derivative financial instruments

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

Other trading liabilities and other financial liabilities at fair value

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

Debt issues

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

Life insurance policy liabilities and margin on services

Life insurance policy liabilities are calculated using the Margin on Services methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 *Determination of Life Insurance Policy Liabilities*. Provision has also been made for estimated liabilities in respect of claims notified, but not settled as at balance date, together with an allowance for incurred, but not reported claims.

Subordinated debentures

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

Employee entitlements

Wages and salaries, annual leave and sick leave

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

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

Long service leave

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

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

Superannuation obligations

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

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 at the reporting date less the fair value at the reporting date of the scheme's assets as adjusted for unrecognised past service costs. The carrying amount of an asset or liability recognised in respect of the defined benefit superannuation scheme is restricted to the total of any unrecognised past service cost and the present value of available refunds from the scheme and reductions in future contributions to the scheme. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of New Zealand Government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

The cost recognised in the income statement in respect of the defined benefit superannuation scheme comprises the current service cost, an interest cost and an expected return on the scheme's assets. In addition, actuarial gains or losses which result from annual actuarial valuations, which exceed 10% of the greater of the present value of the defined benefit scheme's obligations or the market value of the defined benefit scheme assets, are spread on a straight-line basis over the expected remaining service period of members of the respective schemes.

Note 1 Statement of accounting policies (continued)

Termination benefits

Liabilities for termination benefits, not in connection with a business combination, are recognised when a detailed plan for the terminations has been developed (and is without realistic possibility of withdrawal) and a valid expectation has been raised in those employees affected that the terminations will be carried out. Liabilities for termination benefits are recognised within other creditors unless the timing or amount is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits relating to a business combination are recognised as at the date of acquisition if, at or before the acquisition date, the main features of the terminations were planned and a valid expectation has been raised in those employees affected that the termination would be carried out and this is supported by a detailed plan. These liabilities are disclosed in aggregate with other restructuring costs arising as a consequence of the acquisition.

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

Provisions

Provision for restructuring

A provision for restructuring on acquisition is recognised where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. The provisions relating to costs associated with an acquired entity are taken into account in measuring the fair value of the net assets acquired.

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

Head office account and equity

Ordinary shares

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

Head office account - Branch capital

Branch capital comprises funds provided by the Overseas Bank and the amounts recognised as share-based compensation in respect of options and performance share rights granted by the Overseas Bank to employees of the NZ Bank. It is non-interest bearing and there is no fixed date for repatriation.

Convertible debentures

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

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are transferred to the income statement in 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 NZ Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss of derivatives depends on the nature of the hedging relationship. Hedging relationships are of two types:

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

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

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

Fair value hedge

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

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

Note 1 Statement of accounting policies (continued)

Cash flow hedge

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

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss (e.g. when the forecast transaction takes place).

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

Embedded derivatives

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

Loan securitisation

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

Funds management and trust activities

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

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

Leases

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

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

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

Offsetting

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

Segment reporting

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

Statement of cash flows

Basis of presentation

The statement of cash flows has been presented in accordance with NZ IAS 7 *Cash Flow Statements* with netting of certain items as disclosed below.

Cash and cash equivalents

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

Netting of cash flows

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

Note 2 Risk management

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

Risk management organisation

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

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

The NZ CEO and executive management team are responsible for implementing the Board-approved risk management framework and developing policies, controls, processes and procedures for identifying and managing risk arising from the NZ Banking Group's activities.

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

Core risk principles

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

The principles for managing risk are:

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

Management assurance programme

The NZ Banking Group has a quarterly management assurance programme designed to identify the key 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 process under their responsibility and with the effectiveness of the controls that support that assurance. This is attained through the provision of consolidated representations by senior management to the General Manager Risk Management. The results of this process are reported to the New Zealand Operational Risk & Compliance Committee, chaired by the NZ CEO, a member of the Group Executive of the Overseas Bank. The NZ CEO then provides management assurance to the BRMC, the BAC and the Chief Executive Officer of the Overseas Bank.

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

The measurement and management of risk is central to the NZ Banking Group's total management processes, which are discussed in the following sections.

Categories of risk

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

Specific banking risks

The risk management framework encompasses credit, market, non-trading, liquidity, compliance and operational risk.

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of customers to honour fully the terms and conditions of a contract with the NZ Banking Group. It arises primarily from the NZ Banking Group's lending activities, as well as from transactions involving certain foreign exchange and derivative transactions.

For both on and off-balance sheet financial facilities, the NZ Banking Group takes collateral where it is considered necessary to mitigate credit risk. The NZ Banking Group 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 varies, but could include cash deposits, receivables, inventory, plant and equipment, real estate and investments. Relationship-managed facilities and product programmes (for consumer exposures managed on an exception basis, such as housing and cards) are subject to regular review to reassess their risk profile and compliance with expected performance.

Note 2 Risk management (continued)

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

Portfolio management

The NZ Banking Group monitors its portfolio to guard against the development of risk concentrations. This process has ensured that the NZ Banking Group's credit risk remains very well diversified throughout the New Zealand economy. Along with country and industry risk concentration limits and monitoring, the NZ Banking Group establishes 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 BRMC along with a strategy addressing the ongoing management of the excess.

Foreign exchange and derivative credit risk management

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

Market risk

Market risk is the potential for losses arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices:

- foreign exchange rate risk results from exposure to changes in spot prices, forward prices and volatilities of currency rates;
- interest rate risk primarily results from exposures to the change in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment activity and credit spreads;
- commodity price risk results from exposures to changes in spot prices, forward prices and volatilities of commodities; and
- equity price risk results from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices.

The management of market risk arising from financial markets trading books (the subject of the notes below) and the market risks arising from the NZ Banking Group's other banking activities are segregated.

Trading activities

Trading activities include financial markets activities and are controlled by a Board approved market risk framework that incorporates Board-approved Value at Risk (VaR) limits. Market risk is managed using VaR and structural limits in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate Trading Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

Daily VaR

VaR is the potential loss in value of the NZ Banking Group's trading positions due to adverse market movements over a defined time horizon with a specified confidence interval. The NZ Banking Group uses a one-day time horizon and a 99% confidence interval for its VaR model. This means that there is a 1 in 100 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Thus shortfalls from expected trading net revenues on a single trading day greater than the reported VaR would be anticipated to occur, on average, about once every hundred days. The historical simulation method is used to calculate VaR taking into account all material market risk factors. Actual profit or loss outcomes are back-tested to VaR on a daily basis, which monitors the quality of the VaR model. VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VaR is that the distribution of past changes in market risk factors may not produce accurate predictions of future market risk. Different VaR methodologies and distributional assumptions could produce a materially different VaR. Moreover, VaR calculated for a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. Therefore, the use of structural risk reporting and stress testing both act as compliments to further capture extreme events and local market risk exposures.

Other banking activities

The Overseas Banking Group's Market Risk Committee (Group MARCO) establishes policies regarding structural balance sheet interest rate risk, foreign exchange rate risk and liquidity risk. These risks arise principally from mismatches, which occur between the cash flows or repricing profiles of the various portfolios of loans, investments, deposits and other obligations.

Note 2 Risk management (continued)

Non-trading risk

Management of structural interest rate risk

The Institutional Bank's New Zealand Treasury Unit (Treasury) manages the sensitivity of the NZ Banking Group's net interest income to changes in wholesale market interest rates. This sensitivity arises from lending and deposit-taking activity in the normal course of business in and through the investment of capital and other non-interest bearing liabilities. Treasury's risk management objective is to help ensure the reasonable stability of net interest income over time. These activities are performed under the direction of the NZ Bank's Asset and Liability Committee (NZ ALCO) and the oversight of the Overseas Banking Group's Market Risk Management unit, Group Treasury and Group MARCO.

Net interest income sensitivity is managed in terms of the net interest income at risk modelled over a three-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed covers all on and off-balance sheet accrual accounted assets and liabilities in New Zealand. It excludes the interest rate risk within its trading operation that is managed under a VaR framework.

A simulation model is used to calculate the potential net interest income at risk. The net interest income simulation framework combines underlying balance sheet data with:

- assumptions about run off and new business;
- expected repricing behaviour; and
- changes in wholesale market interest rates.

Simulations of a range of interest rate scenarios are used to provide a series of potential future net interest income outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves in New Zealand. More stressed interest rate scenarios are also considered and modelled. A comparison between the net interest income outcomes from these modelled scenarios indicates the NZ Banking Group's sensitivity to interest rate changes. Both on and off-balance sheet instruments are then used to achieve stability in net interest income.

The net interest income simulation and limit frameworks are reviewed and approved annually by the BRMC. This ensures that key model inputs and risk parameters remain relevant and that net interest income at risk to interest rate movements and limits governing these activities remain consistent with the desired risk and reward criterion.

Structural foreign exchange risk

The NZ Banking Group operates a United Kingdom branch of WestpacTrust Securities NZ Limited that gives rise to an immaterial amount of structural foreign exchange rate risk from translating foreign currency earnings and net assets into New Zealand dollars for consolidation in the financial statements.

Equity risk

Equity risk is the risk of loss arising from changes in the price of equity investments held by the NZ Banking Group. The NZ Banking Group has no material exposure to equity risk.

Liquidity risk

Liquidity risk is the potential inability to meet payment obligations of the NZ Banking Group. Treasury administers liquidity management in New Zealand. Group Treasury is responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

Group Treasury manages group funding with oversight from the Group MARCO and the BRMC. The BRMC approve and monitor a range of policies relating to liquidity and liability generation. Quarterly compliance reports are submitted to Group MARCO and the BRMC.

Key aspects of the liquidity management strategy are as follows:

Annual liquidity risk framework review

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

- modelling approach;
- scenarios covered;
- limit determination; and
- levels of liquid asset holdings.

Group MARCO and the Group Risk Reward Committee (GRRC) review the Overseas Banking Group liquidity management approach before being submitted for approval by BRMC.

The liquidity risk management framework models the NZ Banking Group's ability to fund under both normal conditions and during a crisis situation. This approach is designed to ensure that this funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. These models are run globally and for specific geographical regions – including New Zealand.

Note 2 Risk management (continued)

Annual funding plan

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

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

Group MARCO and the GRRC review the Annual Funding Plan before it is submitted for approval by BRMC.

Contingency planning

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

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

Liquidity risk capital

The Liquidity Risk Capital Model measures the risk of loss due to increased costs of ensuring that the demands for cash are met. The model constructs estimates of liquidity risk capital consistent with measurement of credit, market and operational risk capital.

Expense allocation

Group Treasury allocates expenses associated with funding and liquidity management to business units. This approach is intended to promote appropriate behaviours in the organisation and is designed to ensure that pricing signals are consistent with the portfolio management approach.

Sources of liquidity

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

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

In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

As at 31 March 2006, the NZ Banking Group held liquid assets of \$5,156 million (31 March 2005 \$2,282 million, 30 September 2005 \$3,404 million). For the purpose of this note, liquid assets are a pool of high quality assets (government securities and registered certificates of deposit issued by other banks) readily convertible to cash to meet the NZ Banking Group's liquidity requirements.

Compliance risk

The NZ Banking Group's business is subject to regulation and regulatory oversight. Any significant regulatory developments, including changes to accounting standards (refer sections on 'General Accounting Policies' and 'Particular Accounting Policies' in Note 1 to the financial statements), could have an adverse effect on how business is conducted and on results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the NZ Banking Group's control.

Regulatory responsibilities have increased significantly over the last year. In order to manage existing and new requirements in a more effective way, the development of the ability to provide early detection monitoring of these responsibilities to the business has been accelerated. Compliance risk management enables the NZ Banking Group to identify emerging issues and where necessary put in place preventative measures.

While compliance is primarily a line management responsibility, with each business area required to demonstrate an effective process, there are also several group-wide initiatives designed to ensure consistency. For example, Group Compliance approves policy approaches to be adopted for the Overseas Banking Group and receives progress implementation reports in respect of major new regulatory changes.

A progressive implementation approach is continually applied, which is designed to better align the NZ Banking Group's practices with the Australian Standard on Compliance Management.

Note 2 Risk management (continued)

Operational risk

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

The NZ Banking Group has adopted the Overseas Bank's Operational Risk Framework that was approved by the BRMC on 2 May 2005. This Framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management, Operational Risk in Change, Reporting and Monitoring and Operational Risk Capital Allocation.

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

The internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports the results separately to the NZ CEO, the BAC and the BRMC.

Group Audit

The NZ Banking Group has an independent internal audit unit (Group Audit) which reports, through the Overseas Banking Group's internal Group Assurance unit, to the BAC.

The BAC comprises of six non-executive and independent Directors of the Overseas Bank. The Committee 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 Overseas Banking Group's internal and external auditors, as well as monitoring the relationship between management and the external auditors.

Group Audit, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the NZ Banking Group's activities, records, property and employees. The scope of responsibility of the internal audit unit covers systems of management control across all business activities and support functions at all levels of management within the NZ Banking Group. The level of business risk determines the scope and frequency of individual audits.

Reviews in respect of risk management systems

During the financial year, Group Audit participates quarterly in the Management Assurance Programme in order to assess the adequacy of the governance framework supporting operational risk management.

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

The Group Assurance's Portfolio Risk Review unit has a rolling review programme throughout the financial year, which includes reviews of credit decision-making relating to products provided in New Zealand.

Parties internal to the Overseas Banking Group carry out the above reviews.

Note 3 Net interest income

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Interest income						
Loans	1,589	1,172	2,597	1,561	1,199	2,610
Deposits with other financial institutions	15	17	33	14	6	20
Available-for-sale securities	13					
Impaired assets	4	3	9	4	3	9
Dividends on redeemable preference share finance	-	145	187	-		
Related entities	-	1	19	24	161	236
Other	16	12	32	17	12	32
Total interest income recognised using the effective interest method	1,637	1,350	2,877	1,620	1,381	2,907
Trading assets	99	100	204	98	100	204
Other financial assets at fair value	43			-		
Total interest income	1,779	1,450	3,081	1,718	1,481	3,111
Interest expense						
Current and term deposits	805	668	1,414	805	668	1,414
Deposits from other financial institutions	86	31	68	38	31	68
Debt issues	211	139	317		4	7
Related entities	-	10	1	264	256	543
Subordinated debentures	51	20	39	51	20	39
Other	18	18	33	12	9	18
Total interest expense recognised using the effective interest method	1,171	886	1,872	1,170	988	2,089
Trading liabilities	35	70	147	35	70	147
Other financial liabilities at fair value	-			-		
Total interest expense	1,206	956	2,019	1,205	1,058	2,236
Net interest income	573	494	1,062	513	423	875

The NZ Banking Group had loans and deposits that were subject to set-off agreements as disclosed in Note 12. For the reporting period ended 31 March 2006, interest income of nil (31 March 2005 \$210 million, 30 September 2005 \$233 million) and interest expense of nil (31 March 2005 \$80 million, 30 September 2005 \$93 million) has been set-off. This resulted in net interest income of nil (31 March 2005 \$130 million, 30 September 2005 \$140 million) which has been included in interest income from loans. There is no set-off amount in the NZ Bank.

Notes to the financial statements

Note 4 Non-interest income

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Fees and commissions						
Lending fees (loan and risk)	45	58	111	45	58	111
Transaction fees and commissions	133	136	279	130	134	274
Management fees received from related entities	-	-	-	2	3	6
Other non-risk fee income	4	28	49	4	28	49
Total fees and commissions	182	222	439	181	223	440
Wealth management operating income						
Wealth management revenue	46	40	86	-	-	-
Net life insurance income and change in policy liabilities	(12)	(9)	(20)	-	-	-
Total wealth management operating income	34	31	66	-	-	-
Trading income						
Foreign exchange	29	25	49	29	25	49
Other trading	23	13	(21)	23	13	(21)
Total trading income	52	38	28	52	38	28
Gain on ineffective hedges	1			1		
Gain/(loss) from available-for-sale securities	-			-		
Other non-interest income						
Dividend income	-	-	1	-	-	-
Rental income	1	1	2	-	-	-
Loss on disposal of property, plant and equipment	(1)	(1)	(1)	-	-	-
General insurance commissions and premiums earned (net of claims)	1	2	5	11	12	24
Other	-	7	5	2	-	(1)
Total other non-interest income	1	9	12	13	12	23
Total non-interest income	270	300	545	247	273	491

Note 5 Operating expenses

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Salaries and other staff expenses						
Salaries and wages	153	142	287	151	138	280
Employee entitlements	3	3	10	3	3	10
Superannuation costs:						
Defined contribution scheme (refer to Note 42)	11	10	18	11	10	18
Defined benefit scheme (refer to Note 42)	-	-	-	-	-	-
Share-based payments	2	2	4	2	2	4
Restructuring costs	1	-	2	1	-	2
Other	3	3	6	3	3	6
Total salaries and other staff expenses	173	160	327	171	156	320
Equipment and occupancy expenses						
Operating lease rentals:						
Related entities	-	-	-	32	40	80
Other	22	23	45	4	4	9
Depreciation:						
Leasehold improvements	6	6	12	-	-	-
Furniture and equipment	9	9	17	5	5	10
Equipment repairs and maintenance	4	3	7	2	2	4
Electricity, water and rates	1	1	3	-	-	-
Other	3	2	5	-	-	-
Total equipment and occupancy expenses	45	44	89	43	51	103
Other expenses						
Software amortisation costs	15	21	39	15	21	39
Non-lending losses	2	3	7	2	3	4
Consultancy fees and other professional services	21	21	39	16	16	30
Auditors' remuneration (refer to Note 43)	1	1	1	1	1	1
Stationery	7	8	16	7	8	15
Postage and freight	8	8	16	8	8	16
Telecommunication costs	6	5	10	6	5	10
Insurance	-	-	1	-	-	-
Advertising	10	11	22	9	10	21
Training	2	2	5	2	2	5
Travel	5	4	8	5	4	8
Outsourcing	33	36	73	33	35	72
Related entities	6	3	13	29	64	88
Other	6	6	14	4	5	14
Total other expenses	122	129	264	137	182	323
Total operating expenses	340	333	680	351	389	746

Note 6 Impairment losses on loans

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Individually assessed provisions	10	4	22	10	4	22
Individually assessed provisions no longer required	(15)	(4)	(9)	(15)	(4)	(9)
Collectively impaired provision	15	13	12	14	13	15
Write-offs direct	1	17	35	1	15	30
Recoveries	-	(9)	(16)	-	(8)	(14)
Interest adjustments	(5)			(5)		
Total impairment losses on loans	6	21	44	5	20	44

Note 7 Income tax expense

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Income tax expense						
Current tax	161	38	168	116	28	126
Deferred tax (refer to Notes 18 and 24)	1	54	48	-	11	3
Total income tax expense	162	92	216	116	39	129
Operating profit before income tax expense	497	440	883	404	287	576
Tax calculated at tax rate of 33 percent	164	145	291	133	95	190
Exempt dividends	-	(48)	(62)	-	-	-
Income not subject to tax	(4)	(3)	(5)	-	-	-
Expenses not deductible for tax purposes	-	-	-	-	-	-
Other items	2	(2)	(8)	(17)	(56)	(61)
Total income tax expense	162	92	216	116	39	129

The balance of the dividend withholding payment account as at 31 March 2006 was nil (31 March 2005 nil, 30 September 2005 nil) and there was no movement during the reporting period ended 31 March 2006 (31 March 2005 nil, 30 September 2005 nil).

Note 8 Imputation credit account

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited	Six Months Ended 31 March 2006 Unaudited	Six Months Ended 31 March 2005 Unaudited	Year Ended 30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at beginning of the period	313	120	120	119	41	41
Transfers	-	-	-	(7)	-	-
Imputation credits attached to dividends received during the period	-	2	5	-	-	-
Imputation credits attached to dividends paid during the period	-	(14)	(29)	-	-	-
Income tax payments during the period	77	55	217	51	15	78
Balance at end of the period	390	163	313	163	56	119

Note 9 Due from other financial institutions

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Loans and advances to other banks	2,070	85	150	2,070	40	105
Nostro accounts	235	112	209	235	112	209
Other	255	1	2	219	-	1
Total due from other financial institutions	2,560	198	361	2,524	152	315
Due from other financial institutions comprises of:						
At call	2,525	113	316	2,524	112	315
Term	35	85	45	-	40	-
Total due from other financial institutions	2,560	198	361	2,524	152	315

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

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Other trading assets						
Trading securities	3,384	2,798	3,558	3,378	2,798	3,558
Securities purchased under agreement to resell	443	716	569	443	716	569
Total other trading assets	3,827	3,514	4,127	3,821	3,514	4,127
Other financial assets at fair value	1,550			-		
Total other trading assets and other financial assets at fair value	5,377	3,514	4,127	3,821	3,514	4,127
Trading securities						
Listed						
NZ Government securities	1,030	979	1,038	1,029	979	1,038
NZ corporate securities	78	114	86	78	114	86
Other	23	-	-	23	-	-
Total listed trading securities	1,131	1,093	1,124	1,130	1,093	1,124
Unlisted						
NZ Government securities	11	1	1	11	1	1
NZ corporate securities:						
Certificates of deposit	1,821	1,417	2,032	1,816	1,417	2,032
Corporate bonds	-	1	7	-	1	7
Commercial paper	409	261	383	409	261	383
Mortgage backed securities	12	25	11	12	25	11
Total unlisted trading securities	2,253	1,705	2,434	2,248	1,705	2,434
Total trading securities	3,384	2,798	3,558	3,378	2,798	3,558

Note 11 Available-for-sale securities

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Listed securities						
NZ corporate securities	450			✓		
Total available-for-sale securities	450			✓		

As at 31 March 2006, available-for-sale securities in the amount of \$450 million were pledged as collateral for group liabilities.

The movement in available-for-sale securities may be summarised as follows:

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Balance at beginning of the period	-					
Additions	450			✓		
Disposals (sale and redemption)	-					
Gains and losses from changes in fair value	-			✓		
Balance at end of the period	450			✓		

Note 12 Loans

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Overdrafts	1,296	1,187	1,166	1,296	1,187	1,166
Credit card outstandings	1,016	970	978	942	892	907
Overnight and at call money market loans	1,692	1,352	1,552	1,692	1,352	1,552
Term loans:						
Housing	22,929	20,236	21,508	22,667	19,808	21,214
Non-housing	11,659	10,746	11,537	11,473	10,621	11,407
Other	678	4,283	846	678	758	846
Total gross loans	39,270	38,774	37,587	38,748	34,618	37,092
Provisions for impairment losses on loans	(143)	(289)	(301)	(140)	(282)	(297)
Total net loans	39,127	38,485	37,286	38,608	34,336	36,795

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

The NZ Banking Group had set-off agreements in respect of loans made to a bank, the maturity of which was linked strictly to an agreement to repay specific borrowings by the NZ Banking Group from that bank. The interest rate payable on the borrowings was lower than that receivable on the loans. As at 31 March 2006, no loans (31 March 2005 \$3,650 million, 30 September 2005 nil) have been offset against the related borrowings of nil (31 March 2005 \$3,590 million, 30 September 2005 nil) in the balance sheet. Related income and expense flows have been offset within the income statement with the excess of interest income over interest expense being included in total interest income as disclosed in Note 3. There was no set-off amount in the NZ Bank.

Note 13 Impaired assets

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Gross individually impaired assets	52	50	80	52	47	80
Individually assessed provisions	(12)	(7)	(20)	(12)	(7)	(20)
Net individually impaired assets	40	43	60	40	40	60
Gross individually impaired assets						
Balance at beginning of the period	80	58	58	80	55	55
Additions	58	10	87	58	10	87
Amounts written off	(3)	-	(3)	(3)	-	(3)
Returned to performing or repaid	(83)	(18)	(62)	(83)	(18)	(59)
Balance at end of the period excluding restructured assets	52	50	80	52	47	80
Restructured assets						
Balance at beginning of the period	-	-	-	-	-	-
Additions	-	-	1	-	-	1
Returned to performing or repaid	-	-	(1)	-	-	(1)
Balance at end of the period	-	-	-	-	-	-
Total gross individually impaired assets	52	50	80	52	47	80
Interest forgone for the period on the above impaired assets	1	1	2	1	-	2
Individually assessed provisions						
Balance at beginning of the period	20	8	8	20	8	8
Adoption of NZ IAS 32/39	(2)			(2)		
Impairment losses on loans	10	4	22	10	4	22
Individually assessed provisions no longer required	(15)	(4)	(9)	(15)	(4)	(9)
Impairment losses on loans written off	(2)	(1)	(1)	(2)	(1)	(1)
Interest adjustments	1			1		
Balance at end of the period	12	7	20	12	7	20
Collectively impaired provision (previously called general provision)						
Balance at beginning of the period	281	269	269	277	262	262
Adoption of NZ IAS 32/39	(138)			(137)		
Impairment losses on loans	3	13	12	3	13	15
Balance at end of the period	146	282	281	143	275	277
Total impairment provisions	158	289	301	155	282	297
Provisions for impairment losses on loans	143	289	301	140	282	297
Provisions for impairment losses on off-balance sheet credit exposures	15			15		
Total impairment provisions	158	289	301	155	282	297
Past due assets						
Balance at beginning of the period	37	31	31	31	24	24
Additions	38	21	37	33	18	33
Deletions	(30)	(15)	(31)	(27)	(12)	(26)
Balance at end of the period	45	37	37	37	30	31
Interest forgone for the period on the above past due assets	-	-	-	-	-	-
Other assets under administration						
Balance at beginning of the period	16	56	56	16	56	56
Additions	2	1	16	2	1	16
Deletions	(1)	(55)	(56)	(1)	(55)	(56)
Balance at end of the period	17	2	16	17	2	16
Interest income accrued on impaired assets¹	4	3	9	4	3	9

¹ Interest income accrued on impaired assets is included within interest income for the period.

There are no unrecognised impaired assets as at 31 March 2006 (31 March 2005 nil, 30 September 2005 nil).

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

Note 14 Interest earning assets and interest bearing liabilities

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Interest earning and discount bearing assets	47,661	42,332	41,911	46,029	42,902	42,285
Interest earning and discount bearing liabilities	43,603	36,481	36,769	42,553	39,383	39,530

Note 15 Related entities

NZ Banking Group

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

Westpac Group Investment - NZ - Limited's sole subsidiary is Westpac Holdings - NZ - Limited, which in turn has its subsidiaries listed below.

Name of Subsidiary	Principal Activity	Notes
Augusta (1962) Limited	Finance company	
Augusta Equities Limited	Finance company	
Westpac Tasman No. 2 Pty Limited	Finance company, sold 27 July 2005	
TBNZ Limited	Holding company	
TBNZ Capital Limited	Finance company	
TBNZ Developments Limited	Holding company	
TBNZ Investments Limited	Finance company	
TBNZ Equity Limited	Finance company	
TBNZ Investments (UK) Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac Capital - NZ - Limited	Holding company	
Aotearoa Financial Services Limited	Non-trading company	
Sfaka Investments Limited	Finance company, amalgamated with parent 29 September 2005	
TB Group Trustees Limited	Non-trading company, amalgamated with parent 29 September 2005	
Westpac Fund Acceptances - NZ - Limited	Finance company, amalgamated with parent 29 September 2005	
Westpac Lease Discounting - NZ - Limited	Finance company	
Bag Inns Two Limited	Finance company, sold 27 September 2005	
Westpac Operations Integrated Limited	Finance company	
Westpac Financial Synergy Limited	Finance company	
BAK Consolidated Holdings	Finance partnership, sold 19 May 2005	Formerly 76 percent owned
Overseas Partners ¹		
Calstock Partners ¹	Finance partnership, sold 19 May 2005	Formerly 67 percent owned
NZA Overseas Funding ¹	Finance partnership, sold 19 May 2005	Formerly 76 percent owned
Willowemoc Partners ¹	Finance partnership, sold 19 May 2005	Formerly 67 percent owned
Westpac Overseas Investments Limited	Finance company	
Hudson Loft Finance LLC ¹	Finance company, sold 31 May 2005	Formerly 60 percent owned
Westpac Finance Limited	Finance company	
Westpac (NZ) Investments Limited	Property owning and capital funding company	
WestpacTrust Securities NZ Limited	Funding company	
Pacific Structured Funding NZ Limited	Funding company, amalgamated with parent 18 April 2005	
Westpac New Zealand Limited	Non-trading company, incorporated 14 February 2006	

¹ These subsidiaries represented interests in structured finance arrangements, in which beneficial interests, but no voting rights, were held.

Note 15 Related entities (continued)

The subsidiaries of Westpac Financial Services Group - NZ - Limited are listed below:

Name of Subsidiary	Principal Activity
Westpac Life - NZ - Limited	Life insurance company
Westpac Nominees - NZ - Limited	Nominee company
Westpac Superannuation Nominees - NZ - Limited	Nominee company

Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated the following special purpose vehicles, used for the securitisation of the NZ Banking Group's own and customers' assets, which were not consolidated under previous NZ FRS:

- Waratah Receivables Corporation NZ Limited;
- Waratah Securities Australia Limited;
- WST-NZ Warehouse Trust #1; and
- WST-NZ Series WLIS #6 Trust.

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

Tasman Funding No. 1 and Tasman Funding No. 2, wholly owned subsidiaries of a member of the Overseas Banking Group, were incorporated on 15 August 2005. Pacific Funding, a jointly owned subsidiary of Tasman Funding No. 1 and Tasman Funding No. 2 was incorporated on 1 November 2005. Westpac NZ Funding, a wholly owned subsidiary of a member of the Overseas Banking Group, was incorporated on 28 October 2005.

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

- Visa New Zealand Limited;
- Mondex New Zealand Limited;
- Electronic Transaction Services Limited; and
- Interchange and Settlement Limited.

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

In addition to the above entities, the principal related parties of the NZ Banking Group are other significant divisions of the Overseas Banking Group, based in London, Hong Kong, Sydney, New York, Tokyo and Singapore.

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

Amalgamations and disposals of related entities

On 29 September 2005, three NZ Banking Group subsidiaries, TB Group Trustees Limited, Westpac Fund Acceptances - NZ - Limited and Sfaka Investments Limited were amalgamated with their immediate parent company, Westpac Capital - NZ - Limited, pursuant to Part XIII of the Companies Act 1993. These amalgamations had no material impact on the income statement.

On 27 September 2005, a NZ Banking Group subsidiary, Westpac Lease Discounting - NZ - Limited, sold one of its subsidiaries, Bag Inns No. 2 Limited for \$28 million to a third party. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 27 July 2005, the NZ Banking Group disposed of its interest in Westpac Tasman No. 2 Pty Limited to a member of the Overseas Banking Group for \$650 million. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 31 May 2005, a NZ Banking Group subsidiary, Westpac Overseas Investments Limited sold its subsidiary, Hudson Loft Finance LLC for \$1.5 billion to a third party. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 19 May 2005, a NZ Banking Group subsidiary, Westpac Financial Synergy Limited, sold its four subsidiaries for \$2 billion to a third party. The subsidiaries sold were BAK Consolidated Holdings Overseas Partners, Calstock Partners, NZA Overseas Funding and Willowemoc Partners. Sale proceeds closely approximated net assets so there was no material effect on the income statement.

On 18 April 2005, a NZ Banking Group subsidiary, Pacific Structured Funding NZ Limited, was amalgamated with its immediate parent company, WestpacTrust Securities NZ Limited, pursuant to Part XIII of the Companies Act 1993. This amalgamation had no material impact on the income statement.

Nature of transactions

Loan finance and current account banking facilities are provided by the NZ Bank to the other members of the NZ Banking Group on normal commercial terms. Members of the NZ Banking Group earn interest on deposits with the NZ Bank.

Members of the NZ Banking Group have loans from the NZ Bank. Interest is paid on these loans at market rates.

The NZ Bank pays subvention payments to the members of the NZ Banking Group for the use of tax losses. The total payment made by the NZ Bank in the reporting period ended 31 March 2006 was \$19 million (31 March 2005 \$61 million, 30 September 2005 \$75 million). Payments made for tax loss transfers between members of the NZ Banking Group are determined having regard to the circumstances of the entities and the value of the tax losses.

Note 15 Related entities (continued)

Life insurance products are sold by the NZ Bank on behalf of other members of the NZ Banking Group. The NZ Bank receives commission from these sales. Commission received in the reporting period ended 31 March 2006 was \$10 million (31 March 2005 \$11 million, 30 September 2005 \$21 million).

Management fees are paid by members of the NZ Banking Group for certain operating costs incurred by the NZ Bank. Management fees paid in the reporting period ended 31 March 2006 were \$2 million (31 March 2005 \$3 million, 30 September 2005 \$6 million). Rental income is paid by the NZ Bank to Westpac (NZ) Investments Limited. The total charge during the reporting period ended 31 March 2006 was \$32 million (31 March 2005 \$40 million, 30 September 2005 \$81 million).

A member of the NZ Banking Group provides funding to the NZ Bank. Management fees are paid by the NZ Bank for these services. Management fees paid in the reporting period ended 31 March 2006 were \$1 million (31 March 2005 \$0.5 million, 30 September 2005 \$0.5 million).

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

The Overseas Bank guarantees all payment obligations in respect to debt issues issued by the NZ Banking Group.

Derivative transactions are entered into with other members of the NZ Banking Group and the Overseas 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.

A member of the NZ Banking Group, Westpac Holdings - NZ - Limited had issued redeemable preference shares of \$1,777 million to the NZ Bank. These were classified as an investment in related entities on the NZ Bank's balance sheet. Dividends were discretionary and were treated as dividends received in the NZ Bank's income statement. These redeemable preference shares were not entitled to exercise any voting rights except where the dividend payable was in arrears in which case they bore the same voting rights as ordinary shares. These redeemable preference shares were redeemed by Westpac Holdings - NZ - Limited on 20 December 2005. Redemption proceeds closely approximated the carrying value so there was no material effect on the NZ Bank's balance sheet.

Note 16 Goodwill and other intangible assets

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Goodwill						
Cost	547	547	547	477	477	477
Accumulated impairment losses	-	-	-	-	-	-
Net carrying amount of goodwill	547	547	547	477	477	477
Computer software						
Cost	298	242	272	298	242	272
Accumulated amortisation and impairment losses	(181)	(148)	(166)	(181)	(148)	(166)
Net carrying amount of computer software	117	94	106	117	94	106
Total goodwill and other intangible assets	664	641	653	594	571	583
	NZ Banking Group			NZ Bank		
	Goodwill \$m	Computer Software \$m	Total \$m	Goodwill \$m	Computer Software \$m	Total \$m
Balance as at 1 October 2005	547	106	653	477	106	583
Additions	-	26	26	-	26	26
Amortisation	-	(15)	(15)	-	(15)	(15)
Net carrying amount as at 31 March 2006 (unaudited)	547	117	664	477	117	594
Balance as at 1 October 2004	547	99	646	477	99	576
Additions	-	16	16	-	16	16
Amortisation	-	(21)	(21)	-	(21)	(21)
Net carrying amount as at 31 March 2005 (unaudited)	547	94	641	477	94	571
Balance as at 1 October 2004	547	99	646	477	99	576
Additions	-	46	46	-	46	46
Amortisation	-	(39)	(39)	-	(39)	(39)
Net carrying amount as at 30 September 2005 (audited)	547	106	653	477	106	583

Note 16 Goodwill and other intangible assets (continued)

Goodwill disclosure for Trust Bank New Zealand and BT Funds Management (NZ) Limited (BTFG)

Goodwill is allocated to, and tested for impairment as apart of identified cash-generating units (CGUs).

The recoverable amount of CGUs is determined based on value-in-use calculations. These calculations use discounted cash flow projections based on management forecasts approved by the Board covering a three year period. Forecast cash flows beyond the three year period assume either zero growth or ten year average historical growth rates. The discount rate used is the before tax equivalent of the Group's cost of capital.

Goodwill has been allocated to the following CGUs for the purpose of measuring recoverable amount:

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
New Zealand Retail	512	512	512	477	477	477
BTFG	35	35	35	-	-	-
Net carrying amount of goodwill	547	547	547	477	477	477

Note 17 Property, plant and equipment

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Leasehold improvements						
Cost	129	138	139	1	1	1
Accumulated depreciation and impairment losses	(85)	(84)	(88)	(1)	(1)	(1)
Net carrying amount of leasehold improvements	44	54	51	-	-	-
Furniture and equipment						
Cost	221	212	224	125	116	125
Accumulated depreciation and impairment losses	(169)	(163)	(168)	(100)	(91)	(95)
Net carrying amount of furniture and equipment	52	49	56	25	25	30
Total property, plant and equipment	96	103	107	25	25	30

	NZ Banking Group			NZ Bank		
	Leasehold improvements \$m	Furniture and Equipment \$m	Total \$m	Leasehold improvements \$m	Furniture and Equipment \$m	Total \$m
Balance as at 1 October 2005	51	56	107	30	30	30
Additions	-	6	6	1	1	1
Disposals and assets held for sale	(1)	(1)	(2)	-	(1)	(1)
Depreciation	(6)	(9)	(15)	-	(5)	(5)
Net carrying amount as at 31 March 2006 (unaudited)	44	52	96	-	25	25
Balance as at 1 October 2004	57	56	113	30	30	30
Additions	3	8	11	5	5	5
Disposals and assets held for sale	-	(6)	(6)	-	(5)	(5)
Depreciation	(6)	(9)	(15)	-	(5)	(5)
Net carrying amount as at 31 March 2005 (unaudited)	54	49	103	-	25	25
Balance as at 1 October 2004	57	56	113	30	30	30
Additions	7	21	28	13	13	13
Disposals and assets held for sale	(1)	(4)	(5)	-	(3)	(3)
Depreciation	(12)	(17)	(29)	-	(10)	(10)
Net carrying amount as at 30 September 2005 (audited)	51	56	107	-	30	30

Note 18 Deferred tax assets

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Deferred tax assets are attributable to the following:						
Property, plant and equipment	10	7	10	-	-	-
Intangible assets	-	2	-	-	2	-
Provision for loan impairment	47	96	100	48	94	98
Provision for employee entitlements	26	24	21	26	24	24
Cash flow hedge	4	-	-	5	-	-
Tax losses	-	-	-	-	-	-
Other temporary differences	15	4	3	17	-	2
Amounts recognised directly in equity	4	10	9	4	10	9
Set off of deferred tax liabilities (refer to Note 24)	(10)	-	-	(10)	-	-
Balance at end of the period	96	143	143	90	130	133
Movements						
Balance at beginning of the period	143	188	188	133	130	130
Adoption of NZ IAS 32/39	(47)	-	-	(44)	-	-
Set off of prior period deferred tax liabilities (refer to Note 24)	(9)	-	-	(9)	-	-
Credited/(charged) to the income statement	(1)	(45)	(45)	-	-	3
Credited/(charged) to equity	10	-	-	10	-	-
Balance at end of the period	96	143	143	90	130	133

Note 19 Other assets

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Accrued interest receivable	123	141	124	117	106	119
Securities sold not yet delivered	288	57	162	288	57	162
Deferred expenditure (after accumulated amortisation of nil (31 March 2005 \$1 million, 30 September 2005 \$1 million))	-	48	49	-	48	49
Other assets	156	27	165	135	17	145
Total other assets	567	273	500	540	228	475

Note 20 Due to other financial institutions

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited	31 March 2006 Unaudited	31 March 2005 Unaudited	30 September 2005 Audited
	\$m	\$m	\$m	\$m	\$m	\$m
Interest bearing	3,589	636	1,520	1,589	636	1,520
Non-interest bearing	196	347	225	196	347	225
Total due to other financial institutions	3,785	983	1,745	1,785	983	1,745
Due to other financial institutions comprises of:						
At call	1,785	347	225	1,785	347	225
Term	2,000	636	1,520	-	636	1,520
Total due to other financial institutions	3,785	983	1,745	1,785	983	1,745

Note 21 Deposits

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Deposits at fair value						
Certificates of deposit	2,823	3,345	3,847	2,823	3,345	3,847
Total deposits at fair value	2,823	3,345	3,847	2,823	3,345	3,847
Deposits at amortised cost						
Non-interest bearing, repayable at call	2,093	2,018	2,030	2,093	2,018	2,030
Other interest bearing:						
At call	10,310	8,673	9,376	10,310	8,673	9,376
Term	12,962	12,679	12,311	12,962	12,679	12,311
Total deposits at amortised cost	25,365	23,370	23,717	25,365	23,370	23,717
Total deposits	28,188	26,715	27,564	28,188	26,715	27,564

Note 22 Other trading liabilities

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Other trading liabilities						
Securities sold short	406	34	19	406	34	19
Securities sold under agreements to repurchase	64	568	326	64	568	326
Total other trading liabilities	470	602	345	470	602	345

Note 23 Debt issues

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Short term debt						
Commercial paper	8,962	6,290	6,196	-	-	-
Total short term debt	8,962	6,290	6,196	-	-	-
Long term debt						
Euro medium term notes	2,898	3,204	2,190	-	-	-
Domestic medium term notes	-	100	100	-	100	100
Corporate bonds	50	156	67	-	-	-
Total long term debt	2,948	3,460	2,357	-	100	100
Total debt issues	11,910	9,750	8,553	-	100	100

Note 24 Deferred tax liabilities

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Deferred tax liabilities are attributable to the following:						
Property, plant and equipment	3	-	3	3	-	3
Intangible assets	1	-	-	1	-	-
Other temporary differences	6	15	6	6	14	6
Set off of deferred tax assets (refer to Note 18)	(10)	-	-	(10)	-	-
Balance at end of the period	-	15	9	-	14	9
Movements						
Balance at beginning of the period	9	6	6	9	3	3
Change on adoption of NZ IAS 32/39	-			-		
Set off of prior period deferred tax assets (refer to Note 18)	(9)	-	-	(9)	-	-
Charged/(credited) to the income statement	-	9	3	-	11	6
Balance at end of the period	-	15	9	-	14	9

Note 25 Provisions

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Long service leave	9	9	9	9	9	9
Annual leave and other staff benefits	26	23	34	25	22	32
Non-lending losses	2	2	2	2	2	2
Off-balance sheet provisions	15			15		
Total provisions	52	34	45	51	33	43

	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-Lending Losses \$m	Off-Balance Sheet Provisions \$m	Total \$m
NZ Banking Group					
Balance as at 30 September 2005	9	34	2		45
Adoption of NZ IAS 32/39	-	-	-	16	16
Additional provisions recognised	1	10	-	-	11
Utilised during the period	(1)	(18)	-	(1)	(20)
Balance as at 31 March 2006	9	26	2	15	52
NZ Bank					
Balance as at 30 September 2005	9	32	2		43
Adoption of NZ IAS 32/39	-	-	-	16	16
Additional provisions recognised	1	10	-	-	11
Utilised during the period	(1)	(17)	-	(1)	(19)
Balance as at 31 March 2006	9	25	2	15	51

Note 26 Other liabilities

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Accrued interest payable	213	199	240	166	150	170
Securities purchased not yet delivered	218	136	158	218	136	158
Claims reserves	8	8	8	-	-	-
Credit card loyalty programme	28	25	27	28	25	27
Other liabilities	253	143	163	251	131	169
Total other liabilities	720	511	596	663	442	524

Note 27 Priority of financial liabilities in the event of a winding up

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Deposits at amortised cost	25,365	23,370	23,717	25,365	23,370	23,717
Deposits at fair value	2,823	3,345	3,847	2,823	3,345	3,847
Debt issues	11,910	9,750	8,553		100	100
Due to other financial institutions	3,785	983	1,745	1,785	983	1,745
Other trading liabilities	470	602	345	470	602	345
Derivative financial instruments	2,115	1,874	1,153	2,115	1,874	1,153
Other liabilities	712	503	588	663	442	524
Subordinated debentures	1,518	741	758	1,518	741	758
Due to related entities	1,699	1,035	602	14,751	13,649	11,921
Total financial liabilities	50,397	42,203	41,308	49,490	45,106	44,110

Note 28 Subordinated debentures

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Junior subordinated debentures	793	741	758	793	741	758
Fixed Interest Resetable Trust Securities ¹	725	-	-	725	-	-
Total subordinated debentures	1,518	741	758	1,518	741	758

¹ Following adoption of NZ IAS 32/39, on 1 October 2005, the Fixed Interest Resetable Trust Securities have been reclassified as subordinated debt and are included in total liabilities as at 31 March 2006. As comparative periods have not been restated for the effects of NZ IAS 32/39, the Fixed Interest Resetable Trust Securities are classified as convertible debentures and are included in equity as at 31 March 2005 and 30 September 2005.

Junior subordinated debentures

On 5 April 2004, the NZ Bank issued US\$525 million of Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust IV and have been recognised, net of issue costs of NZ\$9 million.

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

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

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

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

Fixed Interest Resetable Trust Securities

On 19 December 2002, the NZ Bank issued Convertible Debentures to Westpac Financial Services Limited as responsible entity (a public company with an Australian financial services license to operate a registered managed investment scheme) of Westpac Second Trust. The investment in convertible debentures was ultimately sourced from the proceeds of approximately A\$655 million (net of issue costs) of Westpac Fixed Interest Resetable Securities (Westpac FIRsTS) issued by Westpac Funds Management Limited as responsible entity of Westpac First Trust. Both the Westpac First Trust and the Westpac Second Trust are Australian registered managed investment schemes and are members of the Overseas Banking Group.

The convertible debentures are unsecured obligations and rank subordinate and junior in right of payment of principal and interest to obligations to depositors and creditors including other subordinated creditors, other than subordinated creditors holding subordinated indebtedness that is stated to rank equally with, or junior to the convertible debentures.

A distribution will only be paid on the convertible debentures if it is declared payable by a committee appointed by the Board of Directors. A distribution must not be declared if APRA has objected to it, or, if certain conditions exist, a distribution must not be declared payable unless approved by APRA. Distributions on the convertible debentures will be payable, if declared, on a quarterly basis on the last day of each quarter or the following business day. Until 31 December 2007, distributions will be calculated based on a rate of 7.82%.

Note 28 Subordinated debentures (continued)

The Overseas Bank may reset certain terms of the convertible debentures on nominated rollover dates, the first of which is 31 December 2007. On these rollover dates the Overseas Bank may, subject to APRA guidelines, reset the next rollover date, the distribution rate, the frequency of distribution dates and the date of the next scheduled distribution.

These convertible debentures will automatically convert into a fixed number of Overseas Bank Preference Shares (or alternative securities if the Overseas Bank is under legal impediment and cannot issue Preference Shares) on 19 December 2052 or where the NZ Bank fails to pay scheduled distributions on the convertible debentures and that failure continues unremedied for a period of 21 days. The convertible debentures will also automatically convert into the Overseas Bank ordinary shares based on a predetermined formula, if triggered by certain APRA regulatory actions affecting the Overseas Bank or in certain other limited circumstances (e.g. if a proceeding is commenced for the Overseas Bank to be wound up or liquidated). The Overseas Bank may elect to convert the convertible debentures into Overseas Bank ordinary shares in certain limited circumstances, such as where its ability to acquire or redeem Westpac FIRsTS is threatened.

These convertible debentures must be redeemed for cash at any time where the Overseas Bank has acquired the Westpac FIRsTS from holders and has required Westpac Funds Management Limited to redeem the Westpac FIRsTS. The convertible debentures may also be redeemed for cash in other limited circumstances, such as where the ability of the Overseas Bank to acquire or redeem Westpac FIRsTS is threatened.

Note 29 Convertible debentures

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Trust preferred securities	1,284	1,284	1,284	1,284	1,284	1,284
Fixed Interest Resettable Trust Securities ¹	-	719	719	-	719	719
Total convertible debentures	1,284	2,003	2,003	1,284	2,003	2,003

¹ Following adoption of NZ IAS 32/39, on 1 October 2005, the Westpac FIRsTS have been reclassified as subordinated debt and are included in total liabilities as at 31 March 2006. As comparative periods have not been restated for the effects of NZ IAS 32/39, the Westpac FIRsTS are classified as convertible debentures and are included in equity as at 31 March 2005 and 30 September 2005. More information on the Westpac FIRsTS is provided in Note 28.

Trust preferred securities

During the year ended 30 September 2003, the NZ Bank issued Junior Subordinated Convertible Debentures to JP Morgan Chase Bank as trustee of the Tavarua Funding Trust III (Funding Trust III). They represent the proceeds (net of issue costs) of approximately US\$750 million of Trust Preferred Securities (2003 TPS) issued by the Overseas Banking Group in the United States of America.

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

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

The convertible debentures have no stated maturity, but will automatically convert into ADRs each representing 40 Overseas Bank preference shares (non-cumulative preference shares with a liquidation amount of US\$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur. The 2003 TPS will then be redeemed for ADRs. The dividend payment dates on the Overseas Bank preference shares will be the same as those otherwise applicable to 2003 TPS. The dividend payment rate on the Overseas Bank preference shares will also be the same as that applicable to the 2003 TPS until 30 September 2013, after which the rate will be a floating rate equal to LIBOR plus a fixed margin.

Under the terms of the convertible debentures, the NZ Bank will make distributions in New Zealand dollars to Funding Trust III. Funding Trust III has entered into a currency swap with the Overseas Bank under which Funding Trust III has agreed to pay the Overseas Bank the New Zealand dollar distributions it receives on the convertible debentures in exchange for US dollars. The NZ Bank has also entered into a netting agreement under which it has agreed to pay any New Zealand dollar distributions on the convertible debentures direct to the Overseas Bank.

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

Note 30 NZ Class shares

	NZ Banking Group		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
NZ Class shares on issue	-	598	-
NZ Class shares held as Treasury Stock	-	(20)	-
Balance at end of the period	-	578	-

On 12 October 1999, a controlled entity, Westpac (NZ) Investments Limited (WNZIL), issued 54,393,306 NZ Class shares. A first instalment of \$7.20 per NZ Class share was received on application and a second instalment of \$4.75 per NZ Class share was received on 20 December 2000. The NZ Class shares were recorded at the total of the first instalment and the present value of the second instalment, net of issue costs. Following a number of buy-backs since 2002 and the buy-back from the Overseas Bank following the exchange of NZ Class shares for Overseas Bank ordinary shares (described below) in July 2005, there were no NZ Class shares on issue as at 31 March 2006 (31 March 2005 52,569,931, 30 September 2005 nil) with no NZ Class shares held as Treasury Stock (31 March 2005 1,125,000, 30 September 2005 nil).

Exchange event

The Overseas Bank had previously advised WNZIL that it had the option to exercise a right to an Exchange Event as a consequence of the impact of new Australian tax rules (New Business Tax System (Debt and Equity) Act 2001) becoming law and affecting some payments in the NZ Class share structure. The Overseas Bank was adversely affected by these new Australian tax rules as the Overseas Bank would have been subject to Australian franking debits in relation to the NZ Class share structure from 1 July 2005.

In the Exchange Deed made by the Overseas Bank in favour of each NZ Class shareholder, the Overseas Bank had certain rights to exchange NZ Class shares for the Overseas Bank ordinary shares upon the occurrence of an Exchange Event. On 5 May 2005, the Overseas Bank announced that it intended to exercise that right.

NZ Class shares ceased trading on the New Zealand Stock Market from the close of business on 1 July 2005. Formal notification of the exchange was sent to NZ Class shareholders on 7 July 2005. As a result, NZ Class shareholders were entitled to receive one Overseas Bank ordinary share for each NZ Class share held on the exchange date. The Overseas Bank ordinary shares were allotted on 11 July 2005. In exchange, all NZ Class shares on issue were transferred to the Overseas Bank.

NZ Class shareholders received a final imputed dividend on the NZ Class shares, which was paid on 1 July 2005.

Buy-back and cancellation

On 27 July 2005, WNZIL bought back all the NZ Class shares held by the Overseas Bank for \$618 million and the shares were subsequently cancelled.

Note 31 Commitments and contingent liabilities

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

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

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

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

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

Note 31 Commitments and contingent liabilities (continued)

Commitments and off-balance sheet credit risk related financial instruments were as follows:

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Commitments for capital expenditure						
Due within one year	46	29	28	46	21	26
Lease commitments (all leases are classified as operating leases)						
Premises and sites	169	118	140	169	118	140
Motor vehicles	3	5	6	3	5	6
Total lease commitments	172	123	146	172	123	146
Lease commitments are due as follows:						
One year or less	33	32	37	33	32	37
Between one and five years	128	73	93	128	73	93
Over five years	11	18	16	11	18	16
Total lease commitments	172	123	146	172	123	146
Contingent liabilities						
Direct credit substitutes	267	275	252	267	275	252
Transaction related contingent items	568	587	574	568	587	574
Short term, self liquidating trade related contingent liabilities	648	639	648	648	639	648
Total contingent liabilities	1,483	1,501	1,474	1,483	1,501	1,474

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

New Zealand Inland Revenue Department investigation

The New Zealand Inland Revenue Department (NZIRD) is reviewing a number of structured finance transactions undertaken in New Zealand and has issued reassessments in respect of seven transactions, three undertaken in the 1999 tax year, two undertaken in the 2000 tax year and two undertaken in the 2001 tax year. The maximum potential tax liability reassessed for the 1999 year is \$18 million (\$25 million with interest), for the 2000 year is \$61 million (\$85 million with interest) and for the 2001 year is \$90 million (\$127 million with interest).

The NZIRD is also investigating other transactions undertaken by the NZ Bank, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the periods up to and including 31 March 2006, the overall primary tax in dispute will be approximately \$611 million (this includes the amounts noted above). With interest this increases to approximately \$773 million (calculated to 31 March 2006).

Proceedings disputing the reassessments with respect to the 1999 and 2000 tax years have been commenced and we will be commencing proceedings to dispute the reassessments in respect of the 2001 tax year. Westpac is confident that the tax treatment applied in all cases is correct. A ruling was sought from the NZIRD on an initial transaction in 1999 which, following extensive review by the NZIRD, was confirmed in early 2001. The principles underlying that ruling are applicable to, and have been followed in, all subsequent transactions.

Other contingent liabilities

The New Zealand Commerce Commission is prosecuting the NZ Bank along with five other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 105 charges have been laid on the NZ Bank (plus one duplicate charge). A hearing in relation to those charges is scheduled for September 2006. In addition, the Commerce Commission has served 29 charges on The Warehouse Financial Services Limited, a member of the NZ Banking Group. Penalties under the Fair Trading Act 1986 could include a fine of up to \$200,000 per charge. In December 2005, the Commerce Commission also commenced related High Court civil proceedings against the NZ Bank claiming refunds of the currency conversion fees paid by customers during the relevant periods covered by the claim. The High Court claim is unlikely to be resolved before the District Court charges. The NZ Bank is considering its position in relation to the charges and the High Court claim. As at the date of signing the General Disclosure Statement by the Directors, no civil proceedings have been commenced against The Warehouse Financial Services Limited.

The NZ Bank has a contingent liability, which arises from it holding an investment in Visa New Zealand Limited (Visa). Visa, as a group member of Visa International is responsible for the obligations (including settlement) of its members. Additionally, there are cross guarantee obligations for the Asia-Pacific region. There are caps in respect of both these obligations and reserves are held by Visa to cover the non-performance of any of its members. It is not envisaged that any liability resulting in a material loss to the NZ Bank will arise from these contingencies.

The Overseas Bank guarantees certain obligations of WestpacTrust Securities NZ Limited under funding programmes that provide funding to the NZ Banking Group.

The NZ Bank leases the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the NZ Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the NZ Bank upon vacation of all leased premises subject to these provisions is estimated to be \$14 million. The NZ Bank believes it is highly unlikely it would incur a material operating loss as a result of this in the normal course of its business operations.

Note 31 Commitments and contingent liabilities (continued)

Other commitments

As at 31 March 2006, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other engagements entered into in the normal course of business as detailed in Note 33. The NZ Banking Group has management systems and operational controls in place to manage interest rate risk and currency risk as outlined in Note 2. Accordingly, it is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these transactions.

Overseas Banking Group guarantees and undertakings

Certain guarantees and undertakings extended to entities in the NZ Banking Group by the Overseas Banking Group are excluded from the consolidated amounts disclosed above. These include guarantees of commercial paper and other debt securities issued by WestpacTrust Securities NZ Limited that are immediately on lent to the Overseas Banking Group, in accordance with guidelines provided by APRA.

Note 32 Maturity analysis

The following maturity analysis of monetary assets and liabilities is based on the remaining period as at balance date to the contractual maturity. The majority of the longer term maturity assets are variable rate products. When managing interest rate and liquidity risks, the NZ Banking Group adjusts this contractual profile for expected customer behaviour.

	NZ Banking Group							
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	31 March 2006 - Unaudited 3 Months to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Monetary assets								
Cash	122	-	-	-	-	-	-	122
Due from other financial institutions	2,525	35	-	-	-	-	-	2,560
Derivative financial instruments	-	286	512	329	935	1,020	42	3,124
Other financial assets at fair value	-	-	-	-	1,550	-	-	1,550
Other trading assets	-	1,001	1,338	1,325	139	24	-	3,827
Available-for-sale securities	-	-	325	125	-	-	-	450
Loans	4,214	1,783	3,059	1,522	4,414	24,276	(141)	39,127
Life insurance assets	-	36	27	15	-	-	-	78
Due from related entities	1,803	-	-	-	-	-	-	1,803
Other monetary assets	-	440	-	1	-	-	126	567
Total monetary assets	8,664	3,581	5,261	3,317	7,038	25,320	27	53,208
Non-monetary assets	-	-	-	-	-	-	856	856
Total assets	8,664	3,581	5,261	3,317	7,038	25,320	883	54,064
Monetary liabilities								
Due to other financial institutions	1,785	-	-	-	-	2,000	-	3,785
Deposits at fair value	-	779	964	885	195	-	-	2,823
Deposits at amortised cost	15,923	2,259	3,336	3,490	355	2	-	25,365
Derivative financial instruments	-	199	307	403	910	296	-	2,115
Other trading liabilities	-	470	-	-	-	-	-	470
Debt issues	-	4,192	4,371	2,018	1,270	59	-	11,910
Other monetary liabilities	-	498	-	-	44	-	170	712
Subordinated debentures	-	-	-	-	-	1,518	-	1,518
Due to related entities	1,699	-	-	-	-	-	-	1,699
Total monetary liabilities	19,407	8,397	8,978	6,796	2,774	3,875	170	50,397
Non-monetary liabilities	-	-	-	-	-	-	72	72
Total liabilities	19,407	8,397	8,978	6,796	2,774	3,875	242	50,469
Net assets	(10,743)	(4,816)	(3,717)	(3,479)	4,264	21,445	641	3,595

Notes to the financial statements

Note 32 Maturity analysis (continued)

NZ Banking Group								
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	31 March 2005 - Unaudited 3 Months to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Monetary assets								
Cash	128	-	-	-	-	-	-	128
Due from other financial institutions	113	85	-	-	-	-	-	198
Derivative financial instruments	-	123	97	185	299	176	-	880
Other financial assets at fair value	-	-	-	-	-	-	-	-
Other trading assets	-	1,527	1,088	620	245	34	-	3,514
Available-for-sale securities	-	-	-	-	-	-	-	-
Loans	3,637	1,813	2,955	1,514	7,245	21,608	(287)	38,485
Life insurance assets	-	30	36	-	-	-	-	66
Due from related entities	1,753	-	-	-	-	-	-	1,753
Other monetary assets	-	221	-	-	1	48	3	273
Total monetary assets	5,631	3,799	4,176	2,319	7,790	21,866	(284)	45,297
Non-monetary assets	-	-	-	-	-	-	943	943
Total assets	5,631	3,799	4,176	2,319	7,790	21,866	659	46,240
Monetary liabilities								
Due to other financial institutions	347	636	-	-	-	-	-	983
Deposits at fair value	10	1,111	1,610	574	40	-	-	3,345
Deposits at amortised cost	14,329	2,817	3,354	2,442	425	3	-	23,370
Derivative financial instruments	-	281	187	375	637	394	-	1,874
Other trading liabilities	-	602	-	-	-	-	-	602
Debt issues	-	1,772	5,233	2,464	125	156	-	9,750
Other monetary liabilities	-	389	-	-	51	-	63	503
Subordinated debentures	-	-	-	-	-	741	-	741
Due to related entities	1,035	-	-	-	-	-	-	1,035
Total monetary liabilities	15,721	7,608	10,384	5,855	1,278	1,294	63	42,203
Non-monetary liabilities	-	-	-	-	-	-	57	57
Total liabilities	15,721	7,608	10,384	5,855	1,278	1,294	120	42,260
Net assets	(10,090)	(3,809)	(6,208)	(3,536)	6,512	20,572	539	3,980

NZ Banking Group								
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	30 September 2005 - Audited 3 Months to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Monetary assets								
Cash	96	-	-	-	-	-	-	96
Due from other financial institutions	316	45	-	-	-	-	-	361
Derivative financial instruments	-	121	84	188	392	175	-	960
Other financial assets at fair value	-	-	-	-	-	-	-	-
Other trading assets	-	1,216	1,237	1,366	212	96	-	4,127
Available-for-sale securities	-	-	-	-	-	-	-	-
Loans	3,864	2,678	2,405	1,633	4,010	22,995	(299)	37,286
Life insurance assets	-	30	34	-	-	-	-	64
Due from related entities	993	-	-	-	-	-	-	993
Other monetary assets	-	328	-	-	1	49	122	500
Total monetary assets	5,269	4,418	3,760	3,187	4,615	23,315	(177)	44,387
Non-monetary assets	-	-	-	-	-	-	949	949
Total assets	5,269	4,418	3,760	3,187	4,615	23,315	772	45,336
Monetary liabilities								
Due to other financial institutions	225	1,520	-	-	-	-	-	1,745
Deposits at fair value	-	334	2,772	734	7	-	-	3,847
Deposits at amortised cost	14,593	2,403	3,432	2,899	389	1	-	23,717
Derivative financial instruments	-	163	79	213	477	221	-	1,153
Other trading liabilities	-	345	-	-	-	-	-	345
Debt issues	-	3,351	2,881	1,263	991	67	-	8,553
Other monetary liabilities	-	461	-	-	50	-	77	588
Subordinated debentures	-	-	-	-	-	758	-	758
Due to related entities	602	-	-	-	-	-	-	602
Total monetary liabilities	15,420	8,577	9,164	5,109	1,914	1,047	77	41,308
Non-monetary liabilities	-	-	-	-	-	-	62	62
Total liabilities	15,420	8,577	9,164	5,109	1,914	1,047	139	41,370
Net assets	(10,151)	(4,159)	(5,404)	(1,922)	2,701	22,268	633	3,966

Note 32 Maturity analysis (continued)

NZ Bank								
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	31 March 2006 - 3 Months to 1 Year \$m	Unaudited 1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Monetary assets								
Cash	121	-	-	-	-	-	-	121
Due from other financial institutions	2,524	-	-	-	-	-	-	2,524
Derivative financial instruments	-	286	512	329	935	1,020	42	3,124
Other financial assets at fair value	-	-	-	-	-	-	-	-
Other trading assets	-	995	1,338	1,325	139	24	-	3,821
Available-for-sale securities	-	-	-	-	-	-	-	-
Loans	4,114	1,697	2,910	1,510	4,386	24,129	(138)	38,608
Due from related entities	2,773	-	-	-	-	-	-	2,773
Other monetary assets	-	431	-	-	-	-	109	540
Total monetary assets	9,532	3,409	4,760	3,164	5,460	25,173	13	51,511
Non-monetary assets	-	-	-	-	-	-	709	709
Total assets	9,532	3,409	4,760	3,164	5,460	25,173	722	52,220
Monetary liabilities								
Due to other financial institutions	1,785	-	-	-	-	-	-	1,785
Deposits at fair value	-	779	964	885	195	-	-	2,823
Deposits at amortised cost	15,923	2,259	3,336	3,490	355	2	-	25,365
Derivative financial instruments	-	199	307	403	910	296	-	2,115
Other trading liabilities	-	470	-	-	-	-	-	470
Debt issues	-	-	-	-	-	-	-	-
Other monetary liabilities	-	441	-	-	44	-	178	663
Subordinated debentures	-	-	-	-	-	1,518	-	1,518
Due to related entities	14,751	-	-	-	-	-	-	14,751
Total monetary liabilities	32,459	4,148	4,607	4,778	1,504	1,816	178	49,490
Non-monetary liabilities	-	-	-	-	-	-	59	59
Total liabilities	32,459	4,148	4,607	4,778	1,504	1,816	237	49,549
Net assets	(22,927)	(739)	153	(1,614)	3,956	23,357	485	2,671

NZ Bank								
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	31 March 2005 - 3 Months to 1 Year \$m	Unaudited 1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Monetary assets								
Cash	128	-	-	-	-	-	-	128
Due from other financial institutions	112	40	-	-	-	-	-	152
Derivative financial instruments	-	123	97	185	299	176	-	880
Other financial assets at fair value	-	-	-	-	-	-	-	-
Other trading assets	-	1,527	1,088	620	245	34	-	3,514
Available-for-sale securities	-	-	-	-	-	-	-	-
Loans	3,517	1,744	2,849	1,492	3,659	21,355	(280)	34,336
Due from related entities	5,947	-	-	-	-	-	-	5,947
Other monetary assets	-	180	-	-	-	48	-	228
Total monetary assets	9,704	3,614	4,034	2,297	4,203	21,613	(280)	45,185
Non-monetary assets	-	-	-	-	-	-	2,549	2,549
Total assets	9,704	3,614	4,034	2,297	4,203	21,613	2,269	47,734
Monetary liabilities								
Due to other financial institutions	347	636	-	-	-	-	-	983
Deposits at fair value	10	1,111	1,610	574	40	-	-	3,345
Deposits at amortised cost	14,329	2,817	3,354	2,442	425	3	-	23,370
Derivative financial instruments	-	281	187	375	637	394	-	1,874
Other trading liabilities	-	602	-	-	-	-	-	602
Debt issues	-	-	-	100	-	-	-	100
Other monetary liabilities	-	322	-	-	51	-	69	442
Subordinated debentures	-	-	-	-	-	741	-	741
Due to related entities	13,649	-	-	-	-	-	-	13,649
Total monetary liabilities	28,335	5,769	5,151	3,491	1,153	1,138	69	45,106
Non-monetary liabilities	-	-	-	-	-	-	47	47
Total liabilities	28,335	5,769	5,151	3,491	1,153	1,138	116	45,153
Net assets	(18,631)	(2,155)	(1,117)	(1,194)	3,050	20,475	2,153	2,581

Note 32 Maturity analysis (continued)

	NZ Bank						
	At Call \$m	Less Than 1 Month \$m	1 Month to 3 Months \$m	30 September 2005 - Audited 3 Months to 1 Year \$m	1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m
Monetary assets							
Cash	96	-	-	-	-	-	-
Due from other financial institutions	315	-	-	-	-	-	-
Derivative financial instruments	-	121	84	188	392	175	-
Other financial assets at fair value	-	-	-	-	-	-	-
Other trading assets	-	1,216	1,237	1,366	212	96	-
Available-for-sale securities	-	-	-	-	-	-	-
Loans	3,763	2,586	2,328	1,619	3,978	22,816	(295)
Due from related entities	1,944	-	-	-	-	-	-
Other monetary assets	-	316	-	-	-	49	110
Total monetary assets	6,118	4,239	3,649	3,173	4,582	23,136	(185)
Non-monetary assets	-	-	-	-	-	-	2,543
Total assets	6,118	4,239	3,649	3,173	4,582	23,136	2,358
Monetary liabilities							
Due to other financial institutions	225	1,520	-	-	-	-	-
Deposits at fair value	-	334	2,772	734	7	-	-
Deposits at amortised cost	14,593	2,403	3,432	2,899	389	1	-
Derivative financial instruments	-	163	79	213	477	221	-
Other trading liabilities	-	345	-	-	-	-	-
Debt issues	-	100	-	-	-	-	-
Other monetary liabilities	-	383	-	-	50	-	91
Subordinated debentures	-	-	-	-	-	758	-
Due to related entities	11,921	-	-	-	-	-	-
Total monetary liabilities	26,739	5,248	6,283	3,846	923	980	91
Non-monetary liabilities	-	-	-	-	-	-	52
Total liabilities	26,739	5,248	6,283	3,846	923	980	143
Net assets	(20,621)	(1,009)	(2,634)	(673)	3,659	22,156	2,215

Note 33 Credit risk

Risk weighted exposures

The risk weighted exposures are derived in accordance with the Reserve Bank of New Zealand's Capital Adequacy Framework (the 'Framework') as required by the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (New Zealand).

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

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

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

Calculation of on-balance sheet exposures

NZ Banking Group 31 March 2006 - Unaudited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,808	0%	-
Long term claims on government	56	10%	6
Claims on banks	6,567	20%	1,313
Claims on public sector entities	221	20%	44
Residential mortgages	22,950	50%	11,475
Other assets	16,988	100%	16,988
Non-risk weighted assets	5,474		-
Total on-balance sheet exposures	54,064		29,826

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	619	50%	310
Total off-balance sheet securitised mortgage exposures	619		310

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	267	100%	267	100%	267
Total direct credit substitutes	267		267		267
Commitments					
Commitments with certain drawdown	46	100%	46	100%	46
Housing loan commitments with certain drawdown	113	100%	113	50%	57
Transaction related contingent items	568	50%	284	90%	255
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,644	50%	3,322	67%	2,229
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,461	0%	-	0%	-
Total commitments	13,480		3,895		2,717
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	57,746		1,784	25%	442
Options	-		-	0%	-
Swaps	26,039		2,495	24%	587
Interest rate contracts:					
Forwards	10,774		2	50%	1
Futures	13,522		-	0%	-
Options	3,207		3	67%	2
Swaps	101,564		940	28%	259
Total market related contracts (derivatives)	212,852		5,224		1,291
Total off-balance sheet and derivative exposures	226,599		9,386		4,275
Total risk weighted exposures					34,411

Note 33 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Banking Group			
31 March 2005 - Unaudited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,683	0%	-
Long term claims on government	184	10%	18
Claims on banks	5,172	20%	1,034
Claims on public sector entities	197	20%	39
Residential mortgages	20,269	50%	10,135
Other assets	15,963	100%	15,963
Non-risk weighted assets	2,772		-
Total on-balance sheet exposures	46,240		27,189

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	532	50%	266
Total off-balance sheet securitised mortgage exposures	532		266

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	275	100%	275	100%	275
Total direct credit substitutes	275		275		275
Commitments					
Commitments with certain drawdown	29	100%	29	100%	29
Housing loan commitments with certain drawdown	73	100%	73	50%	37
Transaction related contingent items	587	50%	294	100%	294
Short term, self liquidating trade related contingent liabilities	639	20%	128	100%	128
Other commitments to provide financial services which have an original maturity of one year or more	6,201	50%	3,101	100%	3,101
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
Total commitments	12,563		3,625		3,589
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	32,522		848	25%	216
Options	215		3	33%	1
Swaps	12,930		783	29%	228
Interest rate contracts:					
Forwards	5,367		2	50%	1
Futures	9,237		-	0%	-
Options	5,941		9	44%	4
Swaps	96,429		995	33%	331
Total market related contracts (derivatives)	162,641		2,640		781
Total off-balance sheet and derivative exposures	175,479		6,540		4,645
Total risk weighted exposures					32,100

Note 33 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Banking Group			
30 September 2005 - Audited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,608	0%	-
Long term claims on government	241	10%	24
Claims on banks	2,431	20%	486
Claims on public sector entities	204	20%	41
Residential mortgages	21,557	50%	10,779
Other assets	16,541	100%	16,541
Non-risk weighted assets	2,754		-
Total on-balance sheet exposures	45,336		27,871

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	590	50%	295
Total off-balance sheet securitised mortgage exposures	590		295

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	252	100%	252	100%	252
Total direct credit substitutes	252		252		252
Commitments					
Commitments with certain drawdown	28	100%	28	100%	28
Housing loan commitments with certain drawdown	97	100%	97	50%	49
Transaction related contingent items	574	50%	287	87%	249
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,229	50%	3,115	65%	2,016
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,741	0%	-	0%	-
Total commitments	13,317		3,657		2,472
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	38,636		642	25%	162
Options	124		1	0%	-
Swaps	16,552		854	28%	242
Interest rate contracts:					
Forwards	7,625		4	50%	2
Futures	11,404		-	0%	-
Options	4,756		4	50%	2
Swaps	97,660		864	29%	251
Total market related contracts (derivatives)	176,757		2,369		659
Total off-balance sheet and derivative exposures	190,326		6,278		3,383
Total risk weighted exposures					31,549

Note 33 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Bank			
31 March 2006 - Unaudited			
	Principal Amount \$m	Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,792	0%	-
Long term claims on government	56	10%	6
Claims on banks	4,532	20%	906
Claims on public sector entities	221	20%	44
Residential mortgages	22,687	50%	11,344
Other assets	17,534	100%	17,534
Non-risk weighted assets	5,398		-
Total on-balance sheet exposures	52,220		29,834

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	619	50%	310
Total off-balance sheet securitised mortgage exposures	619		310

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	267	100%	267	100%	267
Total direct credit substitutes	267		267		267
Commitments					
Commitments with certain drawdown	2,249	100%	2,249	100%	2,249
Housing loan commitments with certain drawdown	113	100%	113	50%	57
Transaction related contingent items	568	50%	284	90%	255
Short term, self liquidating trade related contingent liabilities	648	20%	130	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,644	50%	3,322	67%	2,229
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,461	0%	-	0%	-
Total commitments	15,683		6,098		4,920
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	57,746		1,784	25%	442
Options	-		-	0%	-
Swaps	26,039		2,495	24%	587
Interest rate contracts:					
Forwards	10,774		2	50%	1
Futures	13,522		-	0%	-
Options	3,207		3	67%	2
Swaps	101,564		940	28%	259
Total market related contracts (derivatives)	212,852		5,224		1,291
Total off-balance sheet and derivative exposures	228,802		11,589		6,478
Total risk weighted exposures					36,622

Note 33 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Bank				
31 March 2005 - Unaudited				
	Principal Amount \$m		Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,670		0%	-
Long term claims on government	184		10%	18
Claims on banks	1,602		20%	320
Claims on public sector entities	197		20%	39
Residential mortgages	19,853		50%	9,927
Other assets	21,544		100%	21,544
Non-risk weighted assets	2,684			-
Total on-balance sheet exposures	47,734			31,848

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	532		50%	266
Total off-balance sheet securitised mortgage exposures	532			266

Calculation of off-balance sheet and derivative exposures

	Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes					
Standby letters of credit and financial guarantees	275	100%	275	100%	275
Total direct credit substitutes	275		275		275
Commitments					
Commitments with certain drawdown	21	100%	21	100%	21
Housing loan commitments with certain drawdown	73	100%	73	50%	37
Transaction related contingent items	587	50%	294	100%	294
Short term, self liquidating trade related contingent liabilities	639	20%	128	100%	128
Other commitments to provide financial services which have an original maturity of one year or more	6,201	50%	3,101	100%	3,101
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,034	0%	-	0%	-
Total commitments	12,555		3,617		3,581
Market related contracts (derivatives)					
Foreign exchange contracts:					
Forwards	32,522		848	25%	216
Options	215		3	33%	1
Swaps	12,930		783	29%	228
Interest rate contracts:					
Forwards	5,367		2	50%	1
Futures	9,237		-	0%	-
Options	5,941		9	44%	4
Swaps	96,429		995	33%	331
Total market related contracts (derivatives)	162,641		2,640		781
Total off-balance sheet and derivative exposures	175,471		6,532		4,637
Total risk weighted exposures					36,751

Note 33 Credit risk (continued)

Calculation of on-balance sheet exposures

NZ Bank			
30 September 2005 - Audited			
Principal Amount \$m		Risk Weighting	Risk Weighted Exposure \$m
Cash and short term claims on government	1,595	0%	-
Long term claims on government	241	10%	24
Claims on banks	2,385	20%	477
Claims on public sector entities	204	20%	41
Residential mortgages	21,263	50%	10,632
Other assets	18,919	100%	18,919
Non-risk weighted assets	2,648		-
Total on-balance sheet exposures	47,255		30,093

Calculation of off-balance sheet securitised mortgage exposures

Securitised mortgages	590	50%	295
Total off-balance sheet securitised mortgage exposures	590		295

Calculation of off-balance sheet and derivative exposures

Principal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount \$m	Average Counterparty Risk Weighting	Risk Weighted Exposure \$m
Direct credit substitutes				
Standby letters of credit and financial guarantees	252	100%	100%	252
Total direct credit substitutes	252	252		252
Commitments				
Commitments with certain drawdown	26	100%	100%	26
Housing loan commitments with certain drawdown	97	100%	50%	49
Transaction related contingent items	574	50%	87%	249
Short term, self liquidating trade related contingent liabilities	648	20%	100%	130
Other commitments to provide financial services which have an original maturity of one year or more	6,229	50%	65%	2,016
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	5,741	0%	0%	-
Total commitments	13,315	3,655		2,470
Market related contracts (derivatives)				
Foreign exchange contracts:				
Forwards	38,636	642	25%	162
Options	124	1	0%	-
Swaps	16,552	854	28%	242
Interest rate contracts:				
Forwards	7,625	4	50%	2
Futures	11,404	-	0%	-
Options	4,756	4	50%	2
Swaps	97,660	864	29%	251
Total market related contracts (derivatives)	176,757	2,369		659
Total off-balance sheet and derivative exposures	190,324	6,276		3,381
Total risk weighted exposures				33,769

Note 34 Concentration of credit exposures

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
On-balance sheet credit exposures consists of						
Cash	122	128	96	121	128	96
Due from other financial institutions	2,560	198	361	2,524	152	315
Derivative financial instruments	3,124	880	960	3,124	880	960
Other financial assets at fair value	1,550					
Other trading assets	3,827	3,514	4,127	3,821	3,514	4,127
Available-for-sale securities	450					
Loans	39,127	38,485	37,286	38,608	34,336	36,795
Life insurance assets	78	66	64			
Due from related entities	1,803	1,753	993	2,773	5,947	1,944
Other assets	567	273	500	540	228	475
Total on-balance sheet credit exposures	53,208	45,297	44,387	51,511	45,185	44,712
Analysis of on-balance sheet credit exposures by geographical areas						
Within New Zealand	49,262	40,086	43,173	47,565	43,955	43,399
Australia and Asia-Pacific	2,040	1,875	1,214	2,040	1,230	1,313
United Kingdom and Europe	1,906	-	-	1,906	-	-
North America	-	3,336	-	-	-	-
Total on-balance sheet credit exposures	53,208	45,297	44,387	51,511	45,185	44,712
Analysis of on-balance sheet credit exposures by industry and economic sector						
Government and other public authorities	1,795	1,582	1,626	1,794	1,582	1,626
Agriculture	3,233	2,540	2,999	3,233	2,540	2,999
Other primary industries	350	307	363	350	307	363
Commercial and financial	20,587	16,534	14,470	18,277	12,890	14,228
Real estate - construction	369	468	477	369	468	477
Real estate - mortgage	22,950	20,269	21,557	22,687	19,853	21,263
Instalment loans and other personal lending	2,096	1,932	1,966	2,021	1,810	1,895
Subtotal	51,380	43,632	43,458	48,731	39,450	42,851
Collectively impaired provision	(131)	(282)	(281)	(128)	(275)	(277)
Due from related entities	1,803	1,753	993	2,773	5,947	1,944
Other assets	156	194	217	135	63	194
Total on-balance sheet credit exposures	53,208	45,297	44,387	51,511	45,185	44,712
Off-balance sheet credit and derivative exposures by credit equivalent consists of						
Contingent liabilities and commitments	4,162	3,900	3,909	6,365	3,892	3,907
Derivatives	5,224	2,640	2,369	5,224	2,640	2,369
Total off-balance sheet credit and derivative exposures by credit equivalent	9,386	6,540	6,278	11,589	6,532	6,276
Analysis of off-balance sheet credit exposures by industry and economic sector						
Government and other public authorities	167	126	155	167	126	155
Agriculture	50	30	34	50	30	34
Other primary industries	9	15	14	9	15	14
Commercial and financial	7,044	4,508	4,087	9,247	4,500	4,085
Real estate - construction	34	59	36	34	59	36
Real estate - mortgage	2,041	1,794	1,945	2,041	1,794	1,945
Instalment loans and other personal lending	41	8	7	41	8	7
Total off-balance sheet credit and derivative exposures by credit equivalent	9,386	6,540	6,278	11,589	6,532	6,276

Credit exposure is determined with reference to actual credit exposures.

Australian and New Zealand Standard Industrial Classification (ANZSIC) have been used as the basis for disclosing industry sectors.

Note 34 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

The number of counterparties to which the NZ Banking Group has a credit exposure equal to or greater than 10% of the Overseas Banking Group's equity is shown below.

	Peak End-of-Day for the Three Months Ended		Peak End-of-Day for the Three Months Ended		Peak End-of-Day for the Three Months Ended	
	As at 31 March 2006 Unaudited	31 March 2006 Unaudited	As at 31 March 2005 Unaudited	31 March 2005 Unaudited	As at 30 September 2005 Audited	30 September 2005 Audited
10 - 20% of Overseas Banking Group's equity						
Individual counterparties						
Bank counterparties	-	-	-	-	-	-
Non-bank counterparties	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties	-	-	1	1	-	-
Non-bank counterparties	-	-	-	-	-	-

The peak end-of-day exposures and as at exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the period and then dividing that by the Overseas Banking Group's equity as at 31 March 2006. The equity used in the 31 March 2005 comparatives was as at 31 March 2005. The equity used in the 30 September 2005 comparatives was as at 30 September 2005. Credit exposure used in the above calculations is determined with reference to actual credit exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties do not include exposures to those counterparties if they are recorded outside New Zealand nor exposures to any OECD government. These calculations relate only to exposures held in the financial records of the NZ Banking Group and were calculated net of individually assessed provisions.

The aggregate amount of the credit exposure and percentage of the Overseas Banking Group's equity to which the NZ Banking Group has a credit exposure equal to or greater than 10% of the Overseas Banking Group's equity is shown below.

	As at 31 March 2006		As at 31 March 2005		As at 30 September 2005	
	Aggregate Credit Exposures Unaudited	Percentage of Large Exposures Unaudited	Aggregate Credit Exposures Unaudited	Percentage of Large Exposures Unaudited	Aggregate Credit Exposures Audited	Percentage of Large Exposures Audited
	\$m	%	\$m	%	\$m	%
10 - 20% of Overseas Banking Group's equity						
Individual counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Closely related counterparties						
Bank counterparties:						
Credit rating of BBB- and above	-	-	2,000	100.0	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-
Non-bank counterparties:						
Credit rating of BBB- and above	-	-	-	-	-	-
Credit rating below BBB-	-	-	-	-	-	-
Without investment grade credit rating	-	-	-	-	-	-

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

Note 35 Concentration of funding

	NZ Banking Group			NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Funding consists of						
Due to other financial institutions	3,785	983	1,745	1,785	983	1,745
Deposits at fair value	2,823	3,345	3,847	2,823	3,345	3,847
Deposits at amortised cost	25,365	23,370	23,717	25,365	23,370	23,717
Debt issues ¹	11,910	9,750	8,553	-	100	100
Subordinated debentures	1,518	741	758	1,518	741	758
Due to related entities	1,699	1,035	602	14,751	13,649	11,921
Total funding	47,100	39,224	39,222	46,242	42,188	42,088
Analysis of funding by product						
Saving accounts	3,480	1,208	2,474	3,480	1,208	2,474
Certificates of deposits	2,823	3,345	3,847	2,823	3,345	3,847
Demand deposits	6,836	7,399	6,825	6,836	7,399	6,825
Other deposits and borrowings	26,959	24,513	22,971	15,049	14,863	14,518
Subordinated debentures	1,518	741	758	1,518	741	758
Subtotal	41,616	37,206	36,875	29,706	27,556	28,422
Due to other financial institutions	3,785	983	1,745	1,785	983	1,745
Due to related entities	1,699	1,035	602	14,751	13,649	11,921
Total funding	47,100	39,224	39,222	46,242	42,188	42,088
Analysis of funding by geographical areas¹						
New Zealand	31,651	27,506	29,289	42,623	39,615	40,350
Australia and Asia-Pacific	3,048	1,831	967	2,826	1,832	980
United Kingdom and Europe	3,782	3,626	2,780	-	-	-
North America	8,619	6,261	6,186	793	741	758
Total funding	47,100	39,224	39,222	46,242	42,188	42,088
Analysis of funding by industry and economic sector						
Government and other public authorities	1,575	1,514	1,574	1,575	1,514	1,574
Agriculture	1,012	811	850	1,012	811	850
Other primary industries	165	154	176	165	154	176
Commercial and financial	28,588	21,995	22,173	14,678	12,345	13,720
Households	14,061	13,715	13,847	14,061	13,715	13,847
Subtotal	45,401	38,189	38,620	31,491	28,539	30,167
Due to related entities	1,699	1,035	602	14,751	13,649	11,921
Total funding	47,100	39,224	39,222	46,242	42,188	42,088

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

Note 36 Fair value of financial instruments

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

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

Certain short term financial instruments

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

Floating rate financial instruments

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

Trading securities

For trading securities, the fair values, which are also the carrying amounts, are based on quoted market prices.

Note 36 Fair value of financial instruments (continued)

Due from other financial institutions and fixed rate loans

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

Due to other financial institutions, deposits and debt issues

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

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

Commitments to extend credit, financial guarantees, performance bonds and letters of credit

For commitments, financial guarantees, performance bonds and letters of credit, no fair values have been ascribed on the basis that these financial instruments generate ongoing fees at the NZ Banking Group's current pricing levels.

Exchange rate and interest rate contracts

For exchange rate and interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate. The carrying amount and fair value for these contracts are included in 'other assets' or 'other liabilities' as applicable.

Subordinated debentures

For subordinated debentures, the fair values are based on quoted market prices.

	NZ Banking Group					
	31 March 2006 Carrying Amount Unaudited \$m	31 March 2006 Estimated Fair Value Unaudited \$m	31 March 2005 Carrying Amount Unaudited \$m	31 March 2005 Estimated Fair Value Unaudited \$m	30 September 2005 Carrying Amount Audited \$m	30 September 2005 Estimated Fair Value Audited \$m
Financial assets						
Cash	122	122	128	128	96	96
Due from other financial institutions	2,560	2,560	198	198	361	361
Derivative financial instruments	3,124	3,124	880	880	960	960
Other financial instruments at fair value	1,550	1,550				
Other trading assets	3,827	3,827	3,514	3,514	4,127	4,127
Available-for-sale securities	450	450				
Loans	39,127	38,994	38,485	38,450	37,286	37,192
Life insurance assets	78	78	66	66	64	64
Due from related entities	1,803	1,803	1,753	1,753	993	993
Other financial assets	567	567	273	273	500	500
Total financial assets	53,208	53,075	45,297	45,262	44,387	44,293
Non-financial assets	856		943		949	
Total assets	54,064		46,240		45,336	
Financial liabilities						
Due to other financial institutions	3,785	3,785	983	983	1,745	1,745
Deposits at fair value	2,823	2,823	3,345	3,345	3,847	3,847
Deposits at amortised cost	25,365	25,390	23,370	23,395	23,717	23,739
Derivative financial instruments	2,115	2,115	1,874	1,874	1,153	1,153
Other trading liabilities	470	470	602	602	345	345
Debt issues	11,910	11,900	9,750	9,749	8,553	8,555
Other financial liabilities	712	712	503	503	588	588
Subordinated debentures	1,518	1,518	741	741	758	758
Due to related entities	1,699	1,699	1,035	1,035	602	602
Total financial liabilities	50,397	50,412	42,203	42,227	41,308	41,332
Non-financial liabilities	72		57		62	
Total liabilities	50,469		42,260		41,370	

Note 36 Fair value of financial instruments (continued)

	NZ Bank					
	31 March 2006 Carrying Amount Unaudited \$m	31 March 2006 Estimated Fair Value Unaudited \$m	31 March 2005 Carrying Amount Unaudited \$m	31 March 2005 Estimated Fair Value Unaudited \$m	30 September 2005 Carrying Amount Audited \$m	30 September 2005 Estimated Fair Value Audited \$m
Financial assets						
Cash	121	121	128	128	96	96
Due from other financial institutions	2,524	2,524	152	152	315	315
Derivative financial instruments	3,124	3,124	880	880	960	960
Other financial instruments at fair value						
Other trading assets	3,821	3,821	3,514	3,514	4,127	4,127
Available-for-sale securities						
Loans	38,608	38,475	34,336	34,301	36,795	36,701
Due from related entities	2,773	2,773	5,947	5,947	1,944	1,944
Other financial assets	540	540	228	228	475	475
Total financial assets	51,511	51,378	45,185	45,150	44,712	44,618
Non-financial assets	709		2,549		2,543	
Total assets	52,220		47,734		47,255	
Financial liabilities						
Due to other financial institutions	1,785	1,785	983	983	1,745	1,745
Deposits at fair value	2,823	2,823	3,345	3,345	3,847	3,847
Deposits at amortised cost	25,365	25,390	23,370	23,395	23,717	23,739
Derivative financial instruments	2,115	2,115	1,874	1,874	1,153	1,153
Other trading liabilities	470	470	602	602	345	345
Debt issues			100	98	100	100
Other financial liabilities	663	663	442	442	524	524
Subordinated debentures	1,518	1,518	741	741	758	758
Due to related entities	14,751	14,741	13,649	13,651	11,921	11,923
Total financial liabilities	49,490	49,505	45,106	45,131	44,110	44,134
Non-financial liabilities	59		47		52	
Total liabilities	49,549		45,153		44,162	

Note 37 Interest rate risk

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

The following table represents a breakdown of the earlier of the contractual repricing or maturity dates of the Group's net asset position as at 31 March 2006. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk. A detailed description of the NZ Banking Group's interest rate risk management framework is provided in Note 2.

NZ Banking Group											
31 March 2006 - Unaudited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Weighted Average Total \$m	Interest Rate % ¹
Financial assets											
Cash	-	-	-	-	-	-	-	-	122	122	0.0
Due from other financial institutions	2,325	-	-	-	-	-	-	-	235	2,560	5.1
Derivative financial instruments	5	-	-	-	-	-	-	-	3,119	3,124	7.3
Other financial assets at fair value	-	1,550	-	-	-	-	-	-	-	1,550	7.6
Other trading assets	3,876	-	-	-	-	-	-	-	(49)	3,827	7.2
Available-for-sale securities	-	450	-	-	-	-	-	-	-	450	7.7
Loans	16,781	6,162	5,846	6,236	2,756	502	923	64	(143)	39,127	8.7
Life insurance assets	-	-	-	-	-	-	-	-	78	78	0.0
Due from related entities	185	-	-	-	-	-	-	-	1,618	1,803	7.3
Other financial assets	-	-	-	-	-	-	-	-	567	567	0.0
Total financial assets	23,172	8,162	5,846	6,236	2,756	502	923	64	5,547	53,208	
Non-financial assets										856	
Total assets										54,064	
Financial liabilities											
Due to other financial institutions	1,589	2,000	-	-	-	-	-	-	196	3,785	6.9
Deposits at fair value	779	964	885	190	5	-	-	-	-	2,823	6.5
Deposits at amortised cost	14,645	4,502	3,751	249	68	40	17	-	2,093	25,365	5.7
Derivative financial instruments	-	-	-	-	-	-	-	-	2,115	2,115	0.0
Other trading liabilities	469	-	-	-	-	-	-	-	1	470	7.1
Debt issues	4,192	4,430	2,018	1,145	125	-	-	-	-	11,910	4.7
Other financial liabilities	-	-	-	-	-	-	-	-	712	712	0.0
Subordinated debentures	-	-	-	725	-	-	-	793	-	1,518	6.5
Due to related entities	22	-	-	-	-	-	-	-	1,677	1,699	7.3
Total financial liabilities	21,696	11,896	6,654	2,309	198	40	17	793	6,794	50,397	
Non-financial liabilities										72	
Total liabilities										50,469	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	(294)	553	(1,458)	181	(275)	-	-	1,293	-	-	

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

Note 37 Interest rate risk (continued)

NZ Banking Group											
31 March 2005 - Unaudited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Interest Rate % ¹
Financial assets											
Cash	-	-	-	-	-	-	-	-	128	128	0.0
Due from other financial institutions	85	-	-	-	-	-	-	-	113	198	6.9
Derivative financial instruments	4	-	-	-	-	-	-	-	876	880	6.8
Other financial assets at fair value											
Other trading assets	3,436	-	-	-	-	-	-	-	78	3,514	6.5
Available-for-sale securities											
Loans	16,598	4,541	7,543	7,446	1,586	722	270	68	(289)	38,485	8.4
Life insurance assets	-	-	-	-	-	-	-	-	66	66	0.0
Due from related entities	33	-	-	-	-	-	-	-	1,720	1,753	6.8
Other financial assets	-	-	-	-	-	-	-	-	273	273	0.0
Total financial assets	20,156	4,541	7,543	7,446	1,586	722	270	68	2,965	45,297	
Non-financial assets										943	
Total assets										46,240	
Financial liabilities											
Due to other financial institutions	636	-	-	-	-	-	-	-	347	983	6.8
Deposits at fair value	1,120	1,611	574	39	1	-	-	-	-	3,345	6.8
Deposits at amortised cost	8,366	9,533	3,003	247	141	16	42	4	2,018	23,370	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,874	1,874	0.0
Other trading liabilities	599	-	-	-	-	-	-	-	3	602	6.3
Debt issues	1,772	5,389	2,464	-	-	125	-	-	-	9,750	3.5
Other financial liabilities	-	-	-	-	-	-	-	-	503	503	0.0
Subordinated debentures	-	-	-	-	-	-	-	741	-	741	5.3
Due to related entities	58	-	-	-	-	-	-	-	977	1,035	6.8
Total financial liabilities	12,551	16,533	6,041	286	142	141	42	745	5,722	42,203	
Non-financial liabilities										57	
Total liabilities										42,260	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	5,138	9,676	(8,251)	(4,380)	(2,020)	(659)	(245)	741	-	-	

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

Notes to the financial statements

Note 37 Interest rate risk (continued)

NZ Banking Group											
30 September 2005 - Audited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Interest Rate % ¹
Financial assets											
Cash	-	-	-	-	-	-	-	-	96	96	0.0
Due from other financial institutions	152	-	-	-	-	-	-	-	209	361	4.8
Derivative financial instruments	6	-	-	-	-	-	-	-	954	960	6.8
Other financial assets at fair value	-	-	-	-	-	-	-	-	-	-	-
Other trading assets	4,130	-	-	-	-	-	-	-	(3)	4,127	6.9
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-
Loans	17,856	3,422	6,942	6,649	1,913	439	302	64	(301)	37,286	8.4
Life insurance assets	-	-	-	-	-	-	-	-	64	64	0.0
Due from related entities	36	-	-	-	-	-	-	-	957	993	6.8
Other financial assets	-	-	-	-	-	-	-	-	500	500	0.0
Total financial assets	22,180	3,422	6,942	6,649	1,913	439	302	64	2,476	44,387	
Non-financial assets	-	-	-	-	-	-	-	-	-	949	
Total assets										45,336	
Financial liabilities											
Due to other financial institutions	1,520	-	-	-	-	-	-	-	225	1,745	6.8
Deposits at fair value	334	2,772	734	2	5	-	-	-	-	3,847	6.8
Deposits at amortised cost	16,492	2,044	2,746	249	96	26	30	4	2,030	23,717	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,153	1,153	0.0
Other trading liabilities	345	-	-	-	-	-	-	-	-	345	5.6
Debt issues	3,752	3,622	554	500	-	125	-	-	-	8,553	4.4
Other financial liabilities	-	-	-	-	-	-	-	-	588	588	0.0
Subordinated debentures	-	-	-	-	-	-	-	758	-	758	5.3
Due to related entities	59	-	-	-	-	-	-	-	543	602	6.8
Total financial liabilities	22,502	8,438	4,034	751	101	151	30	762	4,539	41,308	
Non-financial liabilities	-	-	-	-	-	-	-	-	-	62	
Total liabilities										41,370	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	(579)	1,071	(3,899)	500	856	2,051	-	-	-	-	

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

Note 37 Interest rate risk (continued)

NZ Bank											
31 March 2006 - Unaudited											
	Less Than 1 Month \$m	1 Month to 3 Months \$m	3 Months to 1 Year \$m	1 Year to 2 Years \$m	2 Years to 3 Years \$m	3 Years to 4 Years \$m	4 Years to 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Interest Rate % ¹
Financial assets											
Cash	-	-	-	-	-	-	-	-	121	121	0.0
Due from other financial institutions	2,290	-	-	-	-	-	-	-	234	2,524	5.1
Derivative financial instruments	5	-	-	-	-	-	-	-	3,119	3,124	7.3
Other financial assets at fair value	-	-	-	-	-	-	-	-	-	-	0.0
Other trading assets	3,870	-	-	-	-	-	-	-	(49)	3,821	7.2
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	0.0
Loans	16,336	6,155	5,791	6,229	2,751	501	923	62	(140)	38,608	8.7
Life insurance assets	-	-	-	-	-	-	-	-	-	-	0.0
Due from related entities	1,116	-	-	-	-	-	-	-	1,657	2,773	7.4
Other financial assets	-	-	-	-	-	-	-	-	540	540	0.0
Total financial assets	23,617	6,155	5,791	6,229	2,751	501	923	62	5,482	51,511	
Non-financial assets	-	-	-	-	-	-	-	-	-	709	
Total assets										52,220	
Financial liabilities											
Due to other financial institutions	1,589	-	-	-	-	-	-	-	196	1,785	7.3
Deposits at fair value	779	964	885	190	5	-	-	-	-	2,823	6.5
Deposits at amortised cost	14,645	4,502	3,751	249	68	40	17	-	2,093	25,365	5.7
Derivative financial instruments	-	-	-	-	-	-	-	-	2,115	2,115	0.0
Other trading liabilities	469	-	-	-	-	-	-	-	1	470	7.1
Debt issues	-	-	-	-	-	-	-	-	-	-	0.0
Other financial liabilities	-	-	-	-	-	-	-	-	663	663	0.0
Subordinated debentures	-	-	-	725	-	-	-	793	-	1,518	6.5
Due to related entities	5,223	4,371	2,018	1,145	125	-	-	-	1,869	14,751	5.0
Total financial liabilities	22,705	9,837	6,654	2,309	198	40	17	793	6,937	49,490	
Non-financial liabilities	-	-	-	-	-	-	-	-	-	59	
Total liabilities										49,549	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	(294)	553	(1,458)	181	(275)	-	-	1,293	-	-	

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

Notes to the financial statements

Note 37 Interest rate risk (continued)

NZ Bank											
31 March 2005 - Unaudited											
	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	Non-Interest Bearing	Total	Weighted Average Interest Rate % ¹
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets											
Cash	-	-	-	-	-	-	-	-	128	128	0.0
Due from other financial institutions	40	-	-	-	-	-	-	-	112	152	6.8
Derivative financial instruments	4	-	-	-	-	-	-	-	876	880	6.8
Other financial assets at fair value	-	-	-	-	-	-	-	-	-	-	-
Other trading assets	3,436	-	-	-	-	-	-	-	78	3,514	6.5
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-
Loans	16,035	4,532	4,648	6,794	1,674	631	236	68	(282)	34,336	8.3
Due from related entities	32	-	-	-	-	-	-	4,772	1,143	5,947	6.8
Other financial assets	-	-	-	-	-	-	-	-	228	228	0.0
Total financial assets	19,547	4,532	4,648	6,794	1,674	631	236	4,840	2,283	45,185	
Non-financial assets	-	-	-	-	-	-	-	-	-	2,549	
Total assets										47,734	
Financial liabilities											
Due to other financial institutions	636	-	-	-	-	-	-	-	347	983	6.8
Deposits at fair value	1,120	1,611	574	39	1	-	-	-	-	3,345	6.8
Deposits at amortised cost	8,366	9,533	3,003	247	141	16	42	4	2,018	23,370	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,874	1,874	0.0
Other trading liabilities	599	-	-	-	-	-	-	-	3	602	6.3
Debt issues	100	-	-	-	-	-	-	-	-	100	6.3
Other financial liabilities	-	-	-	-	-	-	-	-	442	442	0.0
Subordinated debentures	-	-	-	-	-	-	-	741	-	741	5.3
Due to related entities	4,788	5,233	2,464	-	-	125	-	-	1,039	13,649	4.3
Total financial liabilities	15,609	16,377	6,041	286	142	141	42	745	5,723	45,106	
Non-financial liabilities	-	-	-	-	-	-	-	-	-	47	
Total liabilities										45,153	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	5,138	10,305	(8,251)	(4,380)	(2,020)	(659)	(874)	741	-	-	

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

Note 37 Interest rate risk (continued)

NZ Bank											
30 September 2005 - Audited											
	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	Non-Interest Bearing	Total	Weighted Average Interest Rate % ¹
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets											
Cash	-	-	-	-	-	-	-	-	96	96	0.0
Due from other financial institutions	106	-	-	-	-	-	-	-	209	315	3.9
Derivative financial instruments	6	-	-	-	-	-	-	-	954	960	6.8
Other financial assets at fair value	-	-	-	-	-	-	-	-	-	-	-
Other trading assets	4,130	-	-	-	-	-	-	-	(3)	4,127	6.9
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-	-
Loans	17,448	3,413	6,882	6,637	1,909	438	301	64	(297)	36,795	8.4
Due from related entities	106	-	845	-	-	-	-	-	993	1,944	7.2
Other financial assets	-	-	-	-	-	-	-	-	475	475	0.0
Total financial assets	21,796	3,413	7,727	6,637	1,909	438	301	64	2,427	44,712	
Non-financial assets	-	-	-	-	-	-	-	-	-	2,543	
Total assets										47,255	
Financial liabilities											
Due to other financial institutions	1,520	-	-	-	-	-	-	-	225	1,745	6.8
Deposits at fair value	334	2,772	734	2	5	-	-	-	-	3,847	6.8
Deposits at amortised cost	16,492	2,044	2,746	249	96	26	30	4	2,030	23,717	6.0
Derivative financial instruments	-	-	-	-	-	-	-	-	1,153	1,153	0.0
Other trading liabilities	345	-	-	-	-	-	-	-	-	345	5.6
Debt issues	-	100	-	-	-	-	-	-	-	100	6.3
Other financial liabilities	-	-	-	-	-	-	-	-	524	524	0.0
Subordinated debentures	-	-	-	-	-	-	-	758	-	758	5.3
Due to related entities	6,539	3,555	554	500	-	125	-	-	648	11,921	4.9
Total financial liabilities	25,230	8,471	4,034	751	101	151	30	762	4,580	44,110	
Non-financial liabilities	-	-	-	-	-	-	-	-	-	52	
Total liabilities										44,162	
Off-balance sheet financial instruments											
Net interest rate contracts (principal):											
Receivable/(payable)	(579)	1,071	(3,899)	500	856	2,051	-	-	-	-	

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

Note 38 Foreign currency risk

The net open position in each foreign currency, detailed in the table below, represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the end of period spot foreign exchange rates.

NZ Banking Group						NZ Bank		
	31 March 2006	31 March 2005	30 September 2005			31 March 2006	31 March 2005	30 September 2005
	Unaudited	Unaudited	Audited			Unaudited	Unaudited	Audited
	\$m	\$m	\$m			\$m	\$m	\$m
Receivable/(payable)								
Australian dollar	(7)	(8)	4			(7)	(8)	4
Euro	(1)	(2)	-			(1)	(2)	-
Great British pound	(1)	1	(3)			(1)	1	(3)
Japanese yen	9	6	-			9	6	-
United States dollar	(51)	(12)	(30)			(51)	(12)	(30)
Other	(2)	(4)	-			(2)	(4)	-

Note 39 Capital adequacy

	31 March 2006 Unaudited %	31 March 2005 Unaudited %	30 September 2005 Audited %	Minimum Capital Adequacy Ratio Specified by APRA %
Overseas Banking Group				
Tier One Capital, expressed as a percentage of risk weighted exposures	6.8	7.1	7.2	4.0
Capital, expressed as a percentage of risk weighted exposures	9.7	10.0	9.7	8.0
Overseas Bank				
Tier One Capital, expressed as a percentage of risk weighted exposures	6.3	6.2	6.5	4.0
Capital, expressed as a percentage of risk weighted exposures	9.6	9.7	9.4	8.0

The Overseas Banking Group and the Overseas Bank are subject to the capital adequacy requirements as specified by APRA. The capital adequacy requirements are based on the framework proposed by the Basel Committee on Banking Supervision, which have been endorsed by banking supervisory authorities in the G10 and other industrial countries. Under these requirements, the Overseas Banking Group and the Overseas Bank are required to hold minimum capital at least equal to that specified under the Basel framework.

The Overseas Banking Group and the Overseas Bank exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2006. The minimum capital adequacy requirements specified by APRA are at least equal to those specified under the Basel framework.

Note 40 Derivative financial instruments

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

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

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

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

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

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

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

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

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

Trading

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

Hedging

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

(i) Fair value hedges

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

Note 40 Derivative financial instruments (continued)

(ii) Cash flow hedges

The NZ Banking Group hedges a portion of the cash flows from floating-rate customer deposits using swaps. There were no transactions for which cash flow hedge accounting had to be ceased in the six months ended 31 March 2006 as a result of highly probable cash flows no longer expected to occur.

All derivatives for the NZ Banking Group are held in the NZ Bank. Derivatives with related parties are included in Due from and Due to related entities.

NZ Banking Group and NZ Bank			
31 March 2006 - Unaudited			
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	13,526	-	-
Forwards	10,774	2	(2)
Swaps	87,470	476	(531)
Options	3,207	1	(1)
Foreign exchange derivatives			
Forwards	27,039	1,075	(881)
Swaps	24,445	1,435	(662)
Total held for trading derivatives	166,461	2,989	(2,077)
Fair value hedging derivatives			
Interest rate derivatives			
Swaps	6,746	10	(25)
Foreign exchange derivatives			
Swaps	1,650	107	-
Total fair value hedging derivatives	8,396	117	(25)
Cash flow hedging derivatives			
Interest rate derivatives			
Swaps	5,909	18	(13)
Total cash flow hedging derivatives	5,909	18	(13)
Total derivatives	180,766	3,124	(2,115)

Underlying cash flows from cash flow hedges are expected to occur in the following periods:

NZ Banking Group and NZ Bank								
31 March 2006 - Unaudited								
	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)	-	-	-	58	42	-	-	-
Cash outflows (liabilities)	-	-	-	58	42	-	-	-

Note 40 Derivative financial instruments (continued)

NZ Banking Group and NZ Bank			
31 March 2005 - Unaudited			
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	9,233	-	-
Forwards	5,267	2	(3)
Swaps	84,813	358	(474)
Options	3,126	6	(2)
Foreign exchange derivatives			
Forwards	16,308	243	(293)
Swaps	9,751	271	(1,099)
Total held for trading derivatives	128,498	880	(1,871)
Hedging derivatives			
Interest rate derivatives			
Futures	4,024	-	(3)
Total hedging derivatives	4,024	-	(3)
Total derivatives	132,522	880	(1,874)

NZ Banking Group and NZ Bank			
30 September 2005 - Audited			
	Notional \$m	Fair Value (Asset) \$m	Fair Value (Liability) \$m
Held for trading derivatives			
Interest rate derivatives			
Futures	11,405	-	-
Forwards	7,625	4	(3)
Swaps	94,900	334	(523)
Options	4,871	4	-
Foreign exchange derivatives			
Forwards	17,481	217	(272)
Swaps	11,207	401	(353)
Total held for trading derivatives	147,489	960	(1,151)
Hedging derivatives			
Interest rate derivatives			
Futures	4,012	-	(2)
Total hedging derivatives	4,012	-	(2)
Total derivatives	151,501	960	(1,153)

Note 41 Segment information

The NZ Banking Group operates predominantly in the finance, residential mortgage and wealth management industries within New Zealand.

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

Primary reporting – business segments

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

	NZ Banking Group			
	Six Months Ended 31 March 2006 - Unaudited			
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers	1,620	268	146	2,034
Internal revenue	859	73	(917)	15
Total segment revenue	2,479	341	(771)	2,049
Interest income	1,412	206	161	1,779
Interest expense	(536)	(80)	(590)	(1,206)
Internal charges ¹	(407)	(94)	501	-
Net interest income	469	32	72	573
Net non-interest income	208	62	(15)	255
Internal charges ¹	1	(11)	25	15
Net operating income	678	83	82	843
Depreciation and amortisation	(28)	-	-	(28)
Other operating expenses	(297)	(11)	2	(306)
Internal charges ¹	(2)	(6)	2	(6)
Total operating expenses	(327)	(17)	4	(340)
Impairment losses on loans	(26)	5	-	(21)
Reversals of impairment losses on loans	15	-	-	15
Operating profit before income tax expense	340	71	86	497
Income tax expense	-	-	(162)	(162)
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	(2)	-	-	(2)
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	338	71	(76)	333
External assets	36,070	8,176	8,015	52,261
Intragroup assets	-	-	1,803	1,803
Total assets	36,070	8,176	9,818	54,064
External liabilities	21,196	4,907	22,667	48,770
Intragroup liabilities	-	-	1,699	1,699
Total liabilities	21,196	4,907	24,366	50,469
Acquisition of property, plant and equipment and intangible assets	32	-	-	32

¹ Internal charges are eliminated at the ultimate parent level.

Notes to the financial statements

Note 41 Segment information (continued)

	NZ Banking Group			
	Six Months Ended 31 March 2005 - Unaudited			
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers	1,419	218	181	1,818
Internal revenue	616	177	(861)	(68)
Total segment revenue	2,035	395	(680)	1,750
Interest income	1,184	161	104	1,449
Interest expense	(442)	(119)	(385)	(946)
Internal charges ¹	(284)	(33)	308	(9)
Net interest income	458	9	27	494
Net non-interest income	235	57	77	369
Internal charges ¹	-	-	(69)	(69)
Net operating income	693	66	35	794
Depreciation and amortisation	(36)	-	-	(36)
Other operating expenses	(281)	(9)	12	(278)
Internal charges ¹	(9)	(7)	(3)	(19)
Total operating expenses	(326)	(16)	9	(333)
Impairment losses on loans	(33)	(1)	-	(34)
Reversals of impairment losses on loans	13	-	-	13
Operating profit before income tax expense	347	49	44	440
Income tax expense	-	-	(92)	(92)
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	-	-	(2)	(2)
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	347	49	(50)	346
External assets	31,947	6,072	6,468	44,487
Intragroup assets	-	-	1,753	1,753
Total assets	31,947	6,072	8,221	46,240
External liabilities	19,619	3,990	17,616	41,225
Intragroup liabilities	-	-	1,035	1,035
Total liabilities	19,619	3,990	18,651	42,260
Acquisition of property, plant and equipment and intangible assets	27	-	-	27

¹ Internal charges are eliminated at the ultimate parent level.

Note 41 Segment information (continued)

	NZ Banking Group			
	Year Ended 30 September 2005 - Audited			
	New Zealand Retail \$m	Institutional Banking \$m	Other Banking \$m	Total \$m
Revenue from external customers	2,958	453	279	3,690
Internal revenue	1,250	379	(1,693)	(64)
Total segment revenue	4,208	832	(1,414)	3,626
Interest income	2,486	352	224	3,062
Interest expense	(934)	(248)	(836)	(2,018)
Internal charges ¹	(631)	(68)	717	18
Net interest income	921	36	105	1,062
Net non-interest income	472	101	55	628
Internal charges ¹	1	(1)	(83)	(83)
Net operating income	1,394	136	77	1,607
Depreciation and amortisation	(68)	-	(1)	(69)
Other operating expenses	(556)	(21)	10	(567)
Internal charges ¹	(25)	(13)	(6)	(44)
Total operating expenses	(649)	(34)	3	(680)
Impairment losses on loans	(62)	(2)	(5)	(69)
Reversals of impairment losses on loans	25	-	-	25
Operating profit before income tax expense	708	100	75	883
Income tax expense	-	-	(216)	(216)
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	-	-	(5)	(5)
Operating profit after income tax expense attributable to head office account and equity holders of NZ Banking Group	708	100	(146)	662
External assets	33,916	7,285	3,142	44,343
Intragroup assets	-	-	993	993
Total assets	33,916	7,285	4,135	45,336
External liabilities	20,076	3,430	17,262	40,768
Intragroup liabilities	-	-	602	602
Total liabilities	20,076	3,430	17,864	41,370
Acquisition of property, plant and equipment and intangible assets	74	-	-	74

¹ Internal charges are eliminated at the ultimate parent level.

Secondary reporting - geographic segments

The NZ Banking Group operates predominantly within New Zealand.

Note 42 Superannuation commitments

The NZ Banking Group has a defined contribution and a defined benefit superannuation scheme for staff in New Zealand. Contributions, as specified in the rules of the respective schemes, are made by the NZ Banking Group as required. Actuarial valuations of the schemes are undertaken annually, with the last full valuation being undertaken as at 30 September 2005. Contributions to the defined benefit scheme is at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments.

The NZ Banking Group's defined benefit scheme provides lump sum and superannuation benefits. The NZ Banking Group's contributions for the reporting period ended 31 March 2006 were \$3.5 million (31 March 2005 \$0.6 million, 30 September 2005 \$1.1 million).

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

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

	NZ Banking Group and NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Present value of wholly unfunded obligations	139	136	140
Present value of wholly or partly funded obligations	-	-	-
Fair value of plan assets	(118)	(104)	(109)
Present value of net obligations	21	32	31
Past service cost not yet recognised in the balance sheet	-	-	-
Actuarial gains not recognised in the balance sheet	8	2	2
Restrictions of assets recognised	-	-	-
Net liability recognised in the balance sheet	29	34	33
Represented by the following amounts in the balance sheet:			
Assets	-	-	-
Liabilities	29	34	33
Net liability recognised in the balance sheet	29	34	33

The fair value of plan assets include 90-day bank bills issued by the NZ Banking Group with a fair value of \$2.3 million (31 March 2005 \$5.1 million, 30 September 2005 \$25.7 million).

	NZ Banking Group and NZ Bank		
	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Movements in the net asset recognised in the balance sheet			
Net asset at beginning of the period	33	34	34
Net expense recognised in the income statement	-	-	-
Contributions paid	(4)	-	(1)
Net asset recognised at end of the period	29	34	33
Return on plan assets:			
Expected return on plan assets	4	3	7
Actuarial gains/(losses) on plan assets	6	(2)	3
Actual return on plan assets	10	1	10
Actual return on reimbursement rights recognised as an asset	-	-	-

Expense recognised in the income statement

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

	NZ Banking Group and NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$m	Six Months Ended 31 March 2005 Unaudited \$m	Year Ended 30 September 2005 Audited \$m
Current service cost	1	1	1
Interest cost	3	2	6
Expected return on plan assets	(4)	(3)	(7)
Net defined benefit expense	-	-	-

Note 42 Superannuation commitments (continued)

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

NZ Banking Group and NZ Bank			
	31 March 2006 Unaudited %	31 March 2005 Unaudited %	30 September 2005 Audited %
Discount rate at beginning of the period	3.8	4.2	3.8
Expected rate of return on plan assets at beginning of the period	6.6	6.6	6.6
Future salary increases	3.5	3.5	3.5
Other material actuarial assumptions - pension increases	2.5	2.5	2.5

Note 43 Auditors' remuneration

	NZ Banking Group			NZ Bank		
	Six Months Ended 31 March 2006 Unaudited \$'000	Six Months Ended 31 March 2005 Unaudited \$'000	Year Ended 30 September 2005 Audited \$'000	Six Months Ended 31 March 2006 Unaudited \$'000	Six Months Ended 31 March 2005 Unaudited \$'000	Year Ended 30 September 2005 Audited \$'000
Auditor of the parent entity						
Audit services	565	429	938	565	402	911
Other services:						
Further assurance services	108	15	89	108	15	15
Tax services	60	173	216	60	173	216
Total remuneration for audit and non-audit services	733	617	1,243	733	590	1,142

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

Note 44 Key management disclosures

Key management compensation

	NZ Banking Group		
	Six Months Ended 31 March 2006 Unaudited \$'000	Six Months Ended 31 March 2005 Unaudited \$'000	Year Ended 30 September 2005 Audited \$'000
Salaries and other short term benefits	3,883	3,001	4,726
Post employment benefits	328	289	507
Other termination benefits	642	-	92
Share-based payment ¹	2,158	2,096	2,096
Total key management compensation	7,011	5,386	7,421

¹ These amounts relate to grants in January for the previous financial year.

The Directors do not receive any remuneration from the NZ Banking Group or the NZ Bank. Details of Directors' remuneration are disclosed in the Overseas Banking Group's 30 September 2005 Annual Financial Report.

Loans and deposits with key management personnel

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

No provisions have been recognised in respect of loans given to key management and their related parties (31 March 2005 nil, 30 September 2005 nil).

Other related party transactions

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

Note 45 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Securitisation

As at 31 March 2006, the NZ Banking Group had securitised assets amounting to \$710 million (31 March 2005 \$726 million, 30 September 2005 \$691 million). These assets had been sold by the NZ Bank to WST-NZ Series WLIS #6 Trust (WST Trust), the Home Loan Trust (HLT) and the Mortgage Investment Fund (MIF) via the HLT.

The WST Trust was established in 1999 pursuant to a Master Trust Deed between Westpac Securities Administration Limited (WSAL) and the Mortgage Company dated 14 February 1997, and a Series Notice for the WST Trust issued on 21 October 1999. It invested primarily in residential housing loans secured by first ranking mortgages which had been originated by the NZ Bank. The initial amount invested in the WST Trust was A\$311 million and was funded by notes issued by the WST Trust. There have been no subsequent sales of home loans from the NZ Bank to the WST Trust since 1999. The investment balance in the WST Trust as at 31 March 2006 was \$58 million (31 March 2005 \$73 million, 30 September 2005 \$64 million).

The HLT was established in 2000 pursuant to a trust deed between BT Funds Management (NZ) Limited (formerly WestpacTrust Investment Management - NZ - Limited) and The New Zealand Guardian Trust Company Limited, with the principal purpose of investing in home loans originated by the NZ 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.

In June 2005, a new fund known as the MIF was established pursuant to a trust deed between BT Funds Management (NZ) Limited and The New Zealand Guardian Trust Company Limited. The MIF was structured to meet the requirements of a Designated Group Investment Fund for the purposes of New Zealand tax law. The purpose of the MIF is to invest in home loans secured by first ranking mortgages, and the MIF can purchase these home loans from the HLT. As at 31 March 2006, the MIF had purchased home loans from the HLT amounting to \$236 million (31 March 2005 nil, 30 September 2005 \$108 million). The investment strategy of the HLT was amended in June 2005 to allow the HLT to be an investor in the units of the MIF. The HLT was the initial investor in the MIF and took units in the MIF in settlement for the sale of an initial pool of home loans. Subsequent to this, the HLT has sold and will continue to sell pools of home loans to the MIF as unit subscriptions are taken out in the MIF by retail investors.

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

The notes or units issued by the WST Trust, HLT and the MIF do not represent deposits or other liabilities of either the NZ Banking Group or the Overseas Banking Group. Neither the NZ Banking Group nor the Overseas Banking Group in any way stand behind the capital value or performance of these notes or units except to the limited extent provided in the transaction documents for those programmes through the provision of arm's length services and facilities as noted previously. Neither the NZ Banking Group nor the Overseas Banking Group guarantee the payment of interest or the repayment of principal due on the notes or units. Neither the NZ Banking Group nor the Overseas Banking Group is obliged to support any losses that may be suffered by the investors in the notes or units issued by the WST Trust, HLT or the MIF and neither intend to provide such support.

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

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

Funds management and other fiduciary activities

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

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

	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Private and priority	425	171	280
Retirement plans	356	347	345
Retail unit trusts	1,506	1,577	1,380
Wholesale unit trusts	295	371	408
Total funds under management	2,582	2,466	2,413

The value of assets in retail units described above includes the assets of HLT, and the MIF, but not the WST Trust.

Note 45 Securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

Involvement with the NZ Banking Group

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

Risk management

The NZ Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that these policies and procedures will minimise the possibility that those conditions would impact adversely on the NZ Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

While these arrangements are expected to minimise any adverse impacts on the NZ Banking Group of difficulties arising from the activities identified above, it is not certain that the arrangements would ensure that no such adverse impacts would arise. Accordingly, there is no arrangement in place to ensure that difficulties arising from the activities identified above will not impact adversely on the NZ Banking Group.

Marketing and distribution of insurance products

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

Note 46 Insurance business

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

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

	31 March 2006 Unaudited \$m	31 March 2005 Unaudited \$m	30 September 2005 Audited \$m
Total assets	83	71	72

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

Note 47 Explanation of transition to NZ IFRS

This is the second period that the NZ Banking Group has presented its financial statements in accordance with NZ IFRS. The last financial statements under NZ FRS were for the year ended 30 September 2005, and except as detailed in Note 1, the date of transition to NZ IFRS was 1 October 2004.

Comparative information

The opening balance sheet and the comparative figures for the year ended 30 September 2005 as well as for the six months ended 31 March 2005 have been presented under NZ IFRS, except that the NZ Banking Group has taken advantage of the exemptions available under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and excludes the impact of NZ IAS 32 *Financial Instruments: Presentation and Disclosure* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The main adjustments needed to make the comparative information conform to NZ IAS 32 and NZ IAS 39 are detailed below.

Hybrid Instruments (NZ IAS 32 Financial Instruments: Disclosure and Presentation)

The NZ Bank has issued convertible debentures relating to Westpac Fixed Interest Resetable Trust Securities. Under previous NZ CAAP these were classified as equity. Had NZ IFRS been applied during the year ended 30 September 2005 then these would have been reclassified as debt and distributions on them treated as an interest expense.

Effective Yield (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS certain fees received and expenses incurred in the origination of loans are deferred on the balance sheet and subsequently recognised as a yield adjustment to interest income. This would have affected the carrying value of loans, the classification of income and operating profit.

Hedge Accounting (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS all derivative contracts, whether used as hedging instruments or otherwise, are carried at fair value on the balance sheet. Had NZ IFRS been applied during the year ended 30 September 2005 then new items would have appeared in the balance sheet for derivative assets, being the fair value of derivative financial instruments which have a positive fair value and derivative liabilities, being the fair value of derivative financial instruments which have a negative fair value.

NZ IFRS allows fair value hedge accounting and cash flow hedge accounting. These can only be applied when documentation requirements and effectiveness tests are met. Ineffectiveness can prevent the use of hedge accounting and/or result in significant volatility in the income statement. The hedging rules impact the way hedges of net interest margin, assets and liabilities are accounted for. Had NZ IFRS been applied then a Cash flow hedge reserve being the reserve associated with cash flow hedge accounting would have been created. This would also have introduced some volatility to the income statement.

Loan Impairment (NZ IAS 39 Financial Instruments: Recognition and Measurement)

Under NZ IFRS the NZ Banking Group is required to apply an incurred loss approach for loan provisioning and follow specific rules on the measurement of incurred losses. Specific provisions would have been raised for losses that have already been incurred on loans that are known to be impaired. The estimated losses on these impaired loans would have been based on expected future cash flows discounted to their present value and as this discount unwinds, interest would have been recognised in the income statement. Loans not found to be individually impaired would have been collectively assessed for impairment in pools of similar assets with similar risk characteristics. The size of the provision would have been estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience would be adjusted based on current observable data. This would have led to a reduction in the amounts of the NZ Banking Group credit provisions.

Taxation (NZ IAS 12 Income Taxes)

Each of the changes detailed above would have been shown after applying the impact of taxation.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004

NZ Banking Group				
Effect of Transition to NZ IFRS				
	Previous NZ GAAP 30 September 2004	Presentation Changes 30 September 2004	Recognition and Measurement Changes 30 September 2004	Opening NZ IFRS 1 October 2004
Note	\$m	\$m	\$m	\$m
Assets				
Cash	101	-	-	101
Due from other financial institutions	ix 354	-	457	811
Derivative financial instruments	i -	987	-	987
Other trading assets	ii 2,653	158	-	2,811
Loans	x 36,049	-	(647)	35,402
Life insurance assets	iii -	72	-	72
Due from related entities	- 750	-	-	750
Goodwill and other intangible assets	iv, xi 564	99	(17)	646
Property, plant and equipment	iv 212	(99)	-	113
Income tax receivable	v -	40	-	40
Deferred tax assets	v, xii -	115	73	188
Other assets	xiii 1,808	(1,372)	(109)	327
Total assets	42,491	-	(243)	42,248
<i>Less:</i>				
Liabilities				
Due to other financial institutions	1,071	-	-	1,071
Deposits	vi 25,325	(25,325)	-	-
Deposits at fair value	vi -	3,311	-	3,311
Deposits at amortised cost	vi, xiv -	22,014	(5)	22,009
Derivative financial instruments	i -	1,659	-	1,659
Other trading liabilities	vii -	184	-	184
Debt issues	xv 7,772	-	189	7,961
Current tax liabilities	v, xvi -	33	(33)	-
Deferred tax liabilities	v -	6	-	6
Provisions	viii -	41	2	43
Other liabilities	xvii 2,589	(1,923)	45	711
Total liabilities excluding subordinated debentures and due to related entities	36,757	-	198	36,955
Subordinated debentures	785	-	-	785
Total liabilities excluding due to related entities	37,542	-	198	37,740
Due to related entities	522	-	276	798
Total liabilities	38,064	-	474	38,538
Net assets	4,427	-	(717)	3,710
<i>Represented by:</i>				
Shareholders' equity				
Ordinary share capital	132	-	-	132
Branch capital	xviii -	-	6	6
Retained profits	xix 1,065	-	(82)	983
Convertible debentures	xx 1,994	-	9	2,003
Total NZ Banking Group equity	3,191	-	(67)	3,124
NZ Class shares	579	-	-	579
Other minority interests	xxi 657	-	(650)	7
Total equity	4,427	-	(717)	3,710

For the accompanying notes to the reconciliation of equity for the NZ Banking Group as at 1 October 2004 refer to pages 82 and 83.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 31 March 2005

NZ Banking Group					
Effect of Transition to NZ IFRS					
		Previous NZ GAAP 31 March 2005 \$m	Presentation Changes 31 March 2005 \$m	Recognition and Measurement Changes 31 March 2005 \$m	Restated NZ IFRS 31 March 2005 \$m
	Note				
Assets					
Cash		128	-	-	128
Due from other financial institutions	ix	153	-	45	198
Derivative financial instruments	i	-	880	-	880
Other trading assets	ii	2,798	716	-	3,514
Loans	x	38,871	-	(386)	38,485
Life insurance assets	iii	-	66	-	66
Due from related entities		1,753	-	-	1,753
Goodwill and other intangible assets	iv, xi	540	94	7	641
Property, plant and equipment	iv	197	(94)	-	103
Income tax receivable	v	-	56	-	56
Deferred tax assets	v, xii	-	114	29	143
Other assets	xiii	2,303	(1,832)	(198)	273
Total assets		46,743	-	(503)	46,240
<i>Less:</i>					
Liabilities					
Due to other financial institutions		983	-	-	983
Deposits	vi	26,720	(26,720)	-	-
Deposits at fair value	vi	-	3,345	-	3,345
Deposits at amortised cost	vi, xiv	-	23,375	(5)	23,370
Derivative financial instruments	i	-	1,874	-	1,874
Other trading liabilities	vii	-	602	-	602
Debt issues	xv	9,420	-	330	9,750
Current tax liabilities	v, xvi	-	76	(76)	-
Deferred tax liabilities	v	-	15	-	15
Provisions	viii	-	32	2	34
Other liabilities	xvii	3,169	(2,599)	(59)	511
Total liabilities excluding subordinated debentures and due to related entities		40,292	-	192	40,484
Subordinated debentures		741	-	-	741
Total liabilities excluding due to related entities		41,033	-	192	41,225
Due to related entities		1,040	-	(5)	1,035
Total liabilities		42,073	-	187	42,260
Net assets		4,670	-	(690)	3,980
<i>Represented by:</i>					
Shareholders' equity					
Ordinary share capital		132	-	-	132
Branch capital	xviii	-	-	8	8
Retained profits	xix	1,309	-	(59)	1,250
Convertible debentures	xx	1,994	-	9	2,003
Total NZ Banking Group equity		3,435	-	(42)	3,393
NZ Class shares		578	-	-	578
Other minority interests	xxi	657	-	(648)	9
Total equity		4,670	-	(690)	3,980

For the accompanying notes to the reconciliation of equity for the NZ Banking Group as at 31 March 2005 refer to pages 82 and 83.

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for NZ Banking Group as at 1 October 2004 and 31 March 2005

Presentation changes:

- i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.
- v. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.
- vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.
- viii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

- ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.
- x. Loans
 - (a) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. The derecognition of these entities has resulted in a decrease in Loans of \$660 million as at 1 October 2004 and as at 31 March 2005.
 - (b) The consolidation of special purpose vehicles (refer ix.) has resulted in an increase of \$13 million as at 1 October 2004 and an increase of \$274 million as at 31 March 2005.
- xi. Goodwill and other intangible assets
 - (a) Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill as at 1 October 2004 was adjusted by \$17 million.
 - (b) Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase in goodwill of \$24 million as at 31 March 2005.
- xii. Deferred tax assets and Deferred tax liabilities
 - (a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
 - (b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of \$17 million as at 1 October 2004 and as at 31 March 2005.
- xiii. Other assets
 - (a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of \$7 million as at 1 October 2004 and \$2 million as at 31 March 2005.
 - (b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease in assets of \$108 million as at 1 October 2004 and \$192 million as at 31 March 2005.
 - (c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of \$8 million as at 1 October 2004 and 31 March 2005.
- xiv. Deposits at amortised cost
The derecognition of a number of entities (refer x. (a)) resulted in a decrease of \$5 million as at 1 October 2004 and 31 March 2005.
- xv. Debt issues
Refer ix.
- xvi. Current tax liabilities
Refer x. (a).

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for NZ Banking Group as at 1 October 2004 and 31 March 2005 (continued)

xvii. Other liabilities

- (a) The consolidation of special purpose vehicles (refer ix.) resulted in an increase of \$12 million as at 1 October 2004 and a decrease of \$6 million as at 31 March 2005.
- (b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease of \$27 million as at 1 October 2004 and \$112 million as at 31 March 2005.
- (c) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of \$51 million as at 1 October 2004 and 31 March 2005.
- (d) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of \$9 million as at 1 October 2004 and 31 March 2005.
- (e) Other NZ IFRS adjustments resulted in a decrease of \$1 million as at 31 March 2005.

xviii. Branch capital

Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Bank is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.

xix. Retained profits

- (a) Goodwill adjustments (refer xi.) resulted in a decrease of \$17 million as at 1 October 2004 and an increase of \$7 million as at 31 March 2005.
- (b) The derecognition of a number of entities (refer x. (a)) resulted in a decrease of \$7 million as at 1 October 2004 and \$9 million as at 31 March 2005.
- (c) The adjustment to defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of \$42 million as at 1 October 2004 and 31 March 2005.
- (d) Deferred fees (refer xvii. (d)) resulted in a decrease of \$6 million as at 1 October 2004 and 31 March 2005.
- (e) NZ IFRS tax adjustments resulted in a decrease of \$1 million as at 1 October 2004 and \$2 million as at 31 March 2005.
- (f) Other NZ IFRS adjustments resulted in a decrease of \$9 million as at 1 October 2004 and \$7 million as at 31 March 2005.

xx. Convertible debentures

The adjustments relate to the tax effect on deal costs (refer xii. (a)).

xxi. Other minority interests

Refer x. (a).

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005 and 1 October 2005

NZ Banking Group								
Effect of Transition to NZ IFRS								
	Previous NZ CAAP 30 September 2005	Presentation Changes 30 September 2005	Recognition and Measurement Changes 30 September 2005	Restated NZ IFRS 30 September 2005		Adoption of NZ IAS 32/39 1 October 2005	Opening NZ IFRS 1 October 2005	
Note	\$m	\$m	\$m	\$m	Note	\$m	\$m	
Assets								
Cash	96	-	-	96	-	-	96	
Due from other financial institutions	ix	316	-	45	361	-	361	
Derivative financial instruments	i	-	960	-	960	xx	(66)	894
Other trading assets	ii	3,558	569	-	4,127	-	-	4,127
Loans	x	37,094	-	192	37,286	xxi	123	37,409
Life insurance assets	iii	-	64	-	64	-	-	64
Due from related entities		993	-	-	993	xxii	125	1,118
Goodwill and other intangible assets	iv, xi	517	106	30	653	-	-	653
Property, plant and equipment	iv	213	(106)	-	107	-	-	107
Income tax receivable	v	-	46	-	46	xxiii	9	55
Deferred tax assets	v, xii	-	118	25	143	xxiii	(47)	96
Other assets	xlii	2,263	(1,757)	(6)	500	xxiv	(64)	436
Total assets		45,050	-	286	45,336		80	45,416
<i>Less:</i>								
Liabilities								
Due to other financial institutions		1,745	-	-	1,745	-	-	1,745
Deposits	vi	27,564	(27,564)	-	-	-	-	-
Deposits at fair value	vi	-	3,847	-	3,847	-	-	3,847
Deposits at amortised cost	vi	-	23,717	-	23,717	-	-	23,717
Derivative financial instruments	i	-	1,153	-	1,153	xx	(66)	1,087
Other trading liabilities	vii	-	345	-	345	-	-	345
Debt issues	xiv	8,308	-	245	8,553	xxv	19	8,572
Deferred tax liabilities	v, xii	-	9	-	9	-	-	9
Provisions	viii	-	43	2	45	xxvi	16	61
Other liabilities	xv	2,095	(1,550)	51	596	xxvii	(33)	563
Total liabilities excluding subordinated debentures and due to related entities		39,712	-	298	40,010		(64)	39,946
Subordinated debentures		758	-	-	758	xix	703	1,461
Total liabilities excluding due to related entities		40,470	-	298	40,768		639	41,407
Due to related entities		602	-	-	602	xxii	95	697
Total liabilities		41,072	-	298	41,370		734	42,104
Net assets		3,978	-	(12)	3,966		(654)	3,312
<i>Represented by:</i>								
Shareholders' equity								
Ordinary share capital		132	-	-	132	-	-	132
Branch capital	xvi	698	-	10	708	-	-	708
Cash flow hedge reserve		-	-	-	-	xviii	12	12
Retained profits	xvii	1,142	-	(31)	1,111	xxix	53	1,164
Convertible debentures	xviii	1,994	-	9	2,003	xix	(719)	1,284
Total NZ Banking Group equity		3,966	-	(12)	3,954		(654)	3,300
Other minority interests		12	-	-	12	-	-	12
Total equity		3,978	-	(12)	3,966		(654)	3,312

For the accompanying notes to the reconciliation of equity for the NZ Banking Group as at 30 September 2005 and 1 October 2005 refer to pages 85 and 86.

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity for NZ Banking Group as at 30 September 2005 and 1 October 2005

Presentation changes:

- i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iii. Life insurance assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iv. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.
- v. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- vi. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.
- vii. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.
- viii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

- ix. Due from other financial institutions
Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase in both assets and liabilities of the NZ Banking Group.
- x. Loans
Refer ix.
- xi. Goodwill and other intangible assets
 - (a) Under the transition provisions for recognition of assets (NZ IFRS 1) the carrying value of goodwill as at 1 October 2004 was adjusted by \$17 million.
 - (b) Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase of \$47 million.
- xii. Deferred tax assets and Deferred tax liabilities
 - (a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
 - (b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of \$17 million.
- xiii. Other assets
 - (a) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of \$7 million.
 - (b) Other NZ IFRS adjustments have resulted in an increase of \$1 million.
- xiv. Debt issues
Refer ix.
- xv. Other liabilities
 - (a) The consolidation of special purpose vehicles (refer ix.) resulted in a decrease of \$7 million.
 - (b) The adjustment for defined benefit superannuation schemes (refer xii. (b)) resulted in an increase of \$50 million.
 - (c) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of \$9 million.
 - (d) Other NZ IFRS adjustments have resulted in a decrease of \$1 million.
- xvi. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for options and performance share rights issued by the Overseas Bank to employees of the NZ Bank is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in Branch capital. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.
- xvii. Retained profits
 - (a) Goodwill adjustments (refer xi.) resulted in an increase of \$30 million.
 - (b) The adjustment to defined benefit superannuation schemes (refer xii. (b)) resulted in a decrease of \$42 million.
 - (c) Deferred fees (refer xv. (c)) resulted in a decrease of \$6 million.
 - (d) NZ IFRS tax adjustments resulted in a decrease of \$2 million.
 - (e) Other NZ IFRS adjustments resulted in a decrease of \$11 million.
- xviii. Convertible debentures
Refer xii. (a).

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the restatement for NZ Banking Group on adoption of NZ IAS 32/39 with effect from 1 October 2005

Presentation changes:

- xix. Hybrid instruments relating to Westpac Fixed Interest Resetable Trust Securities have been reclassified from equity to debt. *For further details see explanation on page 79 regarding Hybrid Instruments.*

Measurement changes:

- xx. Derivative financial instruments
For further details see explanation on page 79 regarding Hedge Accounting.
- xxi. Loans
- (a) Provisions for loan impairment are based on objective evidence of impairment. This resulted in an increase of \$169 million. *For further details see explanation on page 79 regarding Loan Impairment.*
 - (b) Fee income and direct costs arising at loan origination are deferred and amortised to Interest income over the life of the loan using the effective yield method. This resulted in a decrease of \$46 million. *For further details see explanation on page 79 regarding Effective Yield.*
- xxii. Due from and Due to related entities
The movements are due to related entity derivative financial instruments (refer xix.).
- xxiii. Income tax receivable and Deferred tax assets
The tax effect of the above measurement changes have been recognised.
- xxiv. Other assets
- (a) Deferred fees (*for further details see explanation on page 79 regarding Effective Yield*) resulted in a decrease of \$48 million.
 - (b) Swap fees previously amortised have now been written off. This resulted in a decrease of \$15 million.
 - (c) Other NZ IFRS adjustments have resulted in a decrease of \$1 million.
- xxv. Debt issues
For further details see explanation on page 79 regarding Hedge Accounting.
- xxvi. Provisions
For further details see explanation on page 79 regarding Loan Impairment.
- xxvii. Other liabilities
For further details see explanation on page 79 regarding Hedge Accounting.
- xxviii. Cash flow hedge reserve
For further details see explanation on page 79 regarding Hedge Accounting.
- xxix. Retained profits
- (a) Swap fees (refer xxiv. (b)) resulted in a decrease of \$15 million.
 - (b) Loan adjustments (refer xxi.) resulted in an increase of \$71 million.
 - (c) Deferred fees (refer xv. (c)) resulted in a decrease of \$33 million.
 - (d) Derivatives (*for further details see explanation on page 79 regarding Hedge Accounting*) resulted in a decrease of \$47 million.
 - (e) Convertible debentures (*for further details see explanation on page 79 regarding Hybrid Instruments*) resulted in an increase of \$39 million.
 - (f) NZ IFRS tax adjustments resulted in an increase of \$32 million.
 - (g) Other NZ IFRS adjustments resulted in an increase of \$6 million.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 1 October 2004

NZ Bank				
Effect of Transition to NZ IFRS				
	Previous NZ GAAP 30 September 2004	Presentation Changes 30 September 2004	Recognition and Measurement Changes 30 September 2004	Opening NZ IFRS 1 October 2004
Note	\$m	\$m	\$m	\$m
Assets				
Cash	101	-	-	101
Due from other financial institutions	353	-	-	353
Derivative financial instruments	i	986	-	986
Other trading assets	ii	158	-	2,811
Loans	31,448	-	-	31,448
Due from related entities	4,932	-	-	4,932
Investments in related entities	1,777	-	-	1,777
Goodwill and other intangible assets	iii	99	-	576
Property, plant and equipment	iii	(99)	-	30
Income tax receivable	iv	24	-	24
Deferred tax assets	iv, ix	104	26	130
Other assets	x	(1,272)	(8)	263
Total assets	43,413	-	18	43,431
<i>Less:</i>				
Liabilities				
Due to other financial institutions	1,071	-	-	1,071
Deposits	v	(25,320)	-	-
Deposits at fair value	v	3,311	-	3,311
Deposits at amortised cost	v	22,009	-	22,009
Derivative financial instruments	i	1,659	-	1,659
Other trading liabilities	vi	184	-	184
Debt issues	200	-	-	200
Deferred tax liabilities	iv	3	-	3
Provisions	vii	40	2	42
Other liabilities	xi	(1,886)	56	586
Total liabilities excluding subordinated debentures and due to related entities	29,007	-	58	29,065
Subordinated debentures	785	-	-	785
Total liabilities excluding due to related entities	29,792	-	58	29,850
Due to related entities	11,197	-	-	11,197
Total liabilities	40,989	-	58	41,047
Net assets	2,424	-	(40)	2,384
<i>Represented by:</i>				
Shareholders' equity				
Branch capital	xii	-	6	6
Retained profits	xiii	430	(55)	375
Convertible debentures	xiv	1,994	9	2,003
Total equity	2,424	-	(40)	2,384

For the accompanying notes to the reconciliation of equity for the NZ Bank as at 1 October 2004 refer to page 89.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 31 March 2005

NZ Bank				
Effect of Transition to NZ IFRS				
	Previous NZ CAAP 31 March 2005	Presentation Changes 31 March 2005	Recognition and Measurement Changes 31 March 2005	Restated NZ IFRS 31 March 2005
Note	\$m	\$m	\$m	\$m
Assets				
Cash	128	-	-	128
Due from other financial institutions	152	-	-	152
Derivative financial instruments	i	880	-	880
Other trading assets	ii	716	-	3,514
Loans	34,336	-	-	34,336
Due from related entities	5,947	-	-	5,947
Investments in related entities	1,777	-	-	1,777
Goodwill and other intangible assets	iii, viii	94	20	571
Property, plant and equipment	iii	(94)	-	25
Income tax receivable	iv	46	-	46
Deferred tax assets	iv, ix	101	29	130
Other assets	x	1,979	(8)	228
Total assets	47,693	-	41	47,734
<i>Less:</i>				
Liabilities				
Due to other financial institutions	983	-	-	983
Deposits	v	(26,715)	-	-
Deposits at fair value	v	3,345	-	3,345
Deposits at amortised cost	v	23,370	-	23,370
Derivative financial instruments	i	1,874	-	1,874
Other trading liabilities	vi	602	-	602
Debt issues	100	-	-	100
Deferred tax liabilities	iv	14	-	14
Provisions	vii	32	1	33
Other liabilities	xi	2,908	56	442
Total liabilities excluding subordinated debentures and due to related entities	30,706	-	57	30,763
Subordinated debentures	741	-	-	741
Total liabilities excluding due to related entities	31,447	-	57	31,504
Due to related entities	13,649	-	-	13,649
Total liabilities	45,096	-	57	45,153
Net assets	2,597	-	(16)	2,581
<i>Represented by:</i>				
Shareholders' equity				
Branch capital	xii	-	8	8
Retained profits	xiii	603	(33)	570
Convertible debentures	xiv	1,994	9	2,003
Total equity	2,597	-	(16)	2,581

For the accompanying notes to the reconciliation of equity of the NZ Bank as at 31 March 2005 refer to page 89.

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity of the NZ Bank as at 1 October 2004 and 31 March 2005

Presentation changes:

- i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iii. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets.
- iv. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- v. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.
- vi. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.
- vii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

- viii. Goodwill and other intangible assets
Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase in goodwill of \$20 million as at 31 March 2005.
- ix. Deferred tax assets and Deferred tax liabilities
 - (a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
 - (b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of \$17 million as at 1 October 2004 and as at 31 March 2005.
- x. Other assets
The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of \$8 million as at 1 October 2004 and as at 31 March 2005.
- xi. Other liabilities
 - (a) The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in an increase of \$51 million as at 1 October 2004 and as at 31 March 2005.
 - (b) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of \$8 million as at 1 October 2004 and as at 31 March 2005.
 - (c) Other NZ IFRS adjustments resulted in a decrease of \$3 million as at 1 October 2004 and as at 31 March 2005.
- xii. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for the performance options and performance share rights is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in equity. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.
- xiii. Retained profits
 - (a) Goodwill adjustments (refer viii.) resulted in an increase of \$20 million as at 31 March 2005.
 - (b) The adjustment to defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of \$42 million as at 1 October 2004 and as at 31 March 2005.
 - (c) Deferred fees (refer xi. (b)) resulted in a decrease of \$5 million as at 1 October 2004 and as at 31 March 2005.
 - (d) NZ IFRS tax adjustments resulted in a decrease of \$3 million as at 1 October 2004 and an increase of \$3 million as at 31 March 2005.
 - (e) Other NZ IFRS adjustments resulted in a decrease of \$5 million as at 1 October 2004 and \$9 million as at 31 March 2005.
- xiv. Convertible debentures
The adjustments relate to the tax effect on deal costs (refer ix. (a)).

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of equity as at 30 September 2005 and 1 October 2005

		NZ Bank					
		Effect of Transition to NZ IFRS					
		Previous NZ GAAP 30 September 2005	Presentation Changes 30 September 2005	Recognition and Measurement Changes 30 September 2005	Restated NZ IFRS 30 September 2005	Adoption of NZ IAS 32/39 1 October 2005	Opening NZ IFRS 1 October 2005
Note		\$m	\$m	\$m	\$m	Note	\$m
Assets							
Cash		96	-	-	96		96
Due from other financial institutions		315	-	-	315		315
Derivative financial instruments	i	-	960	-	960	xvi	894
Other trading assets	ii	3,558	569	-	4,127		4,127
Loans		36,795	-	-	36,795	xvii	36,914
Due from related entities		1,944	-	-	1,944	xviii	2,069
Investments in related entities		1,777	-	-	1,777		1,777
Goodwill and other intangible assets	iii, viii	437	106	40	583		583
Property, plant and equipment	iii	136	(106)	-	30		30
Income tax receivable	iv	-	20	-	20	xix	29
Deferred tax assets	iv, ix	-	106	27	133	xix	89
Other assets	x	2,137	(1,655)	(7)	475	xx	411
Total assets		47,195	-	60	47,255		47,334
<i>Less:</i>							
Liabilities							
Due to other financial institutions		1,745	-	-	1,745		1,745
Deposits	v	27,564	(27,564)	-	-		-
Deposits at fair value	v	-	3,847	-	3,847		3,847
Deposits at amortised cost	v	-	23,717	-	23,717		23,717
Derivative financial instruments	i	-	1,153	-	1,153	xvi	1,087
Other trading liabilities	vi	-	345	-	345		345
Debt issues		100	-	-	100		100
Current tax liabilities		-	-	-	-		-
Deferred tax liabilities	iv	-	9	-	9		9
Provisions	vii	-	41	2	43	xxi	59
Other liabilities	xi	2,013	(1,548)	59	524		524
Total liabilities excluding subordinated debentures and due to related entities		31,422	-	61	31,483		31,433
Subordinated debentures		758	-	-	758	xv	703
Total liabilities excluding due to related entities		32,180	-	61	32,241		32,894
Due to related entities		11,921	-	-	11,921	xviii	12,004
Total liabilities		44,101	-	61	44,162		44,898
Net assets		3,094	-	(1)	3,093		2,436
<i>Represented by:</i>							
Shareholders' equity							
Branch capital	xii	698	-	10	708		708
Cash flow hedge reserve		-	-	-	-	xxii	12
Retained profits	xliii	402	-	(20)	382	xxiii	432
Convertible debentures	xiv	1,994	-	9	2,003	xv	1,284
Total equity		3,094	-	(1)	3,093		2,436

For the accompanying notes to the reconciliation of equity of the NZ Bank as at 30 September 2005 and 1 October 2005 refer to pages 91 and 92.

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of equity of the NZ Bank as at 30 September 2005 and 1 October 2005

Presentation changes:

- i. Derivative financial instruments are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- ii. Other trading assets are shown on the face of the balance sheet and have been reclassified from Other assets.
- iii. Computer software has been reclassified from Property, plant and equipment to Goodwill and other intangible assets
- iv. Income tax receivable, Current tax liabilities and Deferred tax assets/liabilities are shown on the face of the balance sheet and have been reclassified from Other assets and Other liabilities.
- v. Deposits have been reclassified into Deposits at fair value and Deposits at amortised cost.
- vi. Other trading liabilities are shown on the face of the balance sheet and have been reclassified from Other liabilities.
- vii. Provisions are shown on the face of the balance sheet and have been reclassified from Other liabilities.

Measurement changes:

- viii. Goodwill and other intangible assets
Goodwill amortised in the year ended 30 September 2005 has been reversed against opening Retained profits and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in an increase of \$40 million.
- ix. Deferred tax assets
 - (a) Under NZ IFRS a balance sheet approach has been adopted for tax disclosure. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.
 - (b) Under NZ IFRS an adjustment for defined benefit superannuation schemes has been made to Retained profits to recognise previously unrecognised actuarial losses permitted by the NZ IFRS transition arrangements. Any subsequent actuarial gains or losses are recognised in accordance with the existing corridor approach. This resulted in an increase to Deferred tax assets of \$17 million.
- x. Other assets
The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of \$7 million.
- xi. Other liabilities
 - (a) The adjustment for defined benefit superannuation schemes (refer ix. (b)) resulted in an increase of \$50 million.
 - (b) Under NZ IFRS certain fees that were previously recognised immediately have been deferred on the balance sheet to be recognised in the income statement over the period of service. This has resulted in an increase of \$9 million.
- xii. Branch capital
Under NZ IFRS an expense has been recognised for all share-based remuneration. The expense for the performance options and performance share rights is the fair value of the instruments at the grant date recognised over the relevant vesting period. There is no impact on Total equity where shares are issued to satisfy awards, as the expense is matched by an offsetting increase in equity. The NZ Banking Group has elected to include all unvested instruments held by employees in its calculation of expense for share-based payments.
- xiii. Retained profits
 - (a) Goodwill adjustments (refer viii.) resulted in an increase of \$40 million.
 - (b) The adjustment to defined benefit superannuation schemes (refer ix. (b)) resulted in a decrease of \$42 million.
 - (c) Deferred fees (refer xi. (b)) resulted in a decrease of \$6 million.
 - (d) Other NZ IFRS adjustments resulted in a decrease of \$12 million.
- xiv. Convertible debentures
Refer ix. (a).

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the restatement on adoption of NZ IAS 32/39 for the NZ Bank with effect from 1 October 2005

Presentation changes:

- xv. Hybrid instruments relating to Westpac Fixed Interest Resetable Trust Securities have been reclassified from equity to debt. *For further details see explanation on page 79 regarding Hybrid Instruments.*

Measurement changes:

- xvi. Derivative financial instruments
For further details see explanation on page 79 regarding Hedge Accounting.
- xvii. Loans
- (a) Provisions for loan impairment are based on objective evidence of impairment. This resulted in an increase of \$170 million. *For further details see explanation on page 79 regarding Loan Impairment.*
 - (b) Fee income and direct costs arising at loan origination are deferred and amortised to interest income over the life of the loan using the effective yield method. This resulted in a decrease of \$51 million. *For further details see explanation on page 79 regarding Effective Yield.*
- xviii. Due from and Due to related entities
The movements are due to related entity derivative financial instruments (refer xvi.).
- xix. Income tax receivable and Deferred tax assets
The tax effect of the above measurement changes have been recognised.
- xx. Other assets
- (a) Deferred fees (*for further details see explanation on page 79 regarding Effective Yield*) resulted in a decrease of \$51 million.
 - (b) Swap fees previously amortised have now been written off. This resulted in a decrease of \$13 million.
- xxi. Provisions
For further details see explanation on page 79 regarding Loan Impairment.
- xxii. Cash flow hedge reserve
For further details see explanation on page 79 regarding Hedge Accounting.
- xxiii. Retained profits
- (a) Swap fees (refer xx. (b)) resulted in a decrease of \$13 million.
 - (b) Loan adjustments (refer xvii.) resulted in an increase of \$67 million.
 - (c) Deferred fees (refer xi. (b)) resulted in a decrease of \$39 million.
 - (d) Derivatives (*for further details see explanation on page 79 regarding Hedge Accounting*) resulted in a decrease of \$27 million.
 - (e) Convertible debentures (*for further details see explanation on page 79 regarding Hybrid Instruments*) resulted in an increase of \$39 million.
 - (f) NZ IFRS tax adjustments resulted in an increase of \$33 million.
 - (g) Other NZ IFRS adjustments resulted in a decrease of \$10 million.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of operating profit after income tax expense

NZ Banking Group					
Six Months Ended 31 March 2005					
Effect of Transition to NZ IFRS					
	Note	Previous NZ CAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Interest income	i, iii	1,475	30	(55)	1,450
Interest expense	i, iv	(917)	(24)	(15)	(956)
Net interest income	i	558	6	(70)	494
Non-interest income:	ii	306	(306)	-	-
Fees and commissions	ii	-	222	-	222
Wealth management revenue	ii	-	31	-	31
Trading income	i, ii	-	38	-	38
Other non-interest income	ii	-	9	-	9
Total non-interest income		306	(6)	-	300
Net operating income		864	-	(70)	794
Operating expenses	v	(360)	-	27	(333)
Impairment losses on loans		(21)	-	-	(21)
Operating profit before income tax expense		483	-	(43)	440
Income tax expense	vi	(158)	-	66	(92)
Operating profit after income tax expense		325	-	23	348
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies		(2)	-	-	(2)
Operating profit attributable to equity holders of NZ Banking Group		323	-	23	346

NZ Banking Group					
Year Ended 30 September 2005					
Effect of Transition to NZ IFRS					
	Note	Previous NZ CAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Interest income	i, iii	2,986	147	(52)	3,081
Interest expense	i, iv	(1,892)	(99)	(28)	(2,019)
Net interest income	i	1,094	48	(80)	1,062
Non-interest income:	ii	593	(593)	-	-
Fees and commissions	ii	-	439	-	439
Wealth management revenue	ii	-	66	-	66
Trading income	i, ii	-	28	-	28
Other non-interest income	ii	-	12	-	12
Total non-interest income		593	(48)	-	545
Net operating income		1,687	-	(80)	1,607
Operating expenses	v	(726)	-	46	(680)
Impairment losses on loans		(44)	-	-	(44)
Operating profit before income tax expense		917	-	(34)	883
Income tax expense	vi	(292)	-	76	(216)
Operating profit after income tax expense		625	-	42	667
Operating profit after income tax expense attributable to intragroup minority interests in subsidiary companies	vii	(14)	-	9	(5)
Operating profit attributable to equity holders of NZ Banking Group		611	-	51	662

For the accompanying notes to the reconciliation of operating profit after income tax expense for the six months ended 31 March 2005 and the year ended 30 September 2005 refer to page 94.

Note 47 Explanation of transition to NZ IFRS (continued)

Notes to the reconciliation of operating profit after income tax expense of the NZ Banking Group

Presentation changes:

- i. Net interest income from financial markets has been reclassified from Trading income to Net interest income.
- ii. These items are now shown on the face of the income statement and have been reclassified from Non-interest income.

Measurement changes:

- iii. Interest income
 - (a) Under NZ IFRS there is a difference in the interpretation of the consolidation and derecognition requirements. As a result, the NZ Banking Group has consolidated a number of special purpose vehicles which has resulted in an increase of \$15 million for the six months ended 31 March 2005 and \$28 million for the year ended 30 September 2005.
 - (b) The NZ Banking Group has derecognised a number of entities relating to various structured finance transactions. This has resulted in a decrease of \$70 million for the six months ended 31 March 2005 and \$80 million for the year ended 30 September 2005.
- iv. Interest expense
 - (a) The consolidation of a number of special purpose vehicles has resulted in an increase of \$15 million for the six months ended 31 March 2005. For the year ended 30 September 2005 this resulted in an increase of \$26 million (refer iii. (a)).
 - (b) Other NZ IFRS adjustments resulted in an increase for the year ended 30 September 2005 of \$2 million.
- v. Operating expenses
 - (a) Under NZ IFRS goodwill acquired in business combinations is no longer amortised, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement, if it occurs. As a result, the goodwill previously amortised has been reversed from the income statement and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in a decrease to Operating expenses of \$24 million for the six months ended 31 March 2005 and \$48 million for the year ended 30 September 2005.
 - (b) Other NZ IFRS adjustments resulted in an increase of \$3 million for the six months ended 31 March 2005 and a decrease of \$2 million for the year ended 30 September 2005.
- vi. Income tax expense
Tax has been adjusted for the above transactions.
- vii. Minority interests
Refer iii. (b).

Reconciliation of operating profit after income tax expense

NZ Bank				
Six Months Ended 31 March 2005				
Effect of Transition to NZ IFRS				
Note	Previous NZ GAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Interest income	i	1,451	30	1,481
Interest expense	i, iii	(1,033)	(24)	(1,058)
Net interest income	i	418	6	423
Non-interest income:	ii	278	(278)	
Fees and commissions	ii		222	223
Trading income	i, ii		38	38
Other non-interest income	ii	-	12	12
Total non-interest income		278	(6)	273
Net operating income		696	-	696
Operating expenses	iv	(411)	22	(389)
Impairment losses on loans		(20)	-	(20)
Operating profit before income tax expense		265	22	287
Income tax expense		(39)	-	(39)
Operating profit after income tax expense		226	22	248

For the accompanying notes to the reconciliation of operating profit after income tax expense for the six months ended 31 March 2005 refer to page 95.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of operating profit after income tax expense (continued)

NZ Bank				
Year Ended 30 September 2005				
Effect of Transition to NZ IFRS				
	Previous NZ GAAP	Presentation Changes	Recognition and Measurement Changes	Restated NZ IFRS
	\$m	\$m	\$m	\$m
Interest income	i	2,964	147	3,111
Interest expense	i, iii	(2,135)	(99)	(2,236)
Net interest income	i	829	48	875
Non-interest income:	ii	538	(538)	-
Fees and commissions	ii	-	439	440
Trading income	i, ii	-	28	28
Other non-interest income	ii	-	23	23
Total non-interest income		538	(48)	491
Net operating income		1,367	(1)	1,366
Operating expenses	iv	(782)	36	(746)
Impairment losses on loans		(44)	-	(44)
Operating profit before income tax expense		541	35	576
Income tax expense		(129)	-	(129)
Operating profit after income tax expense		412	35	447

Notes to the reconciliation of operating profit after income tax expense of the NZ Bank

Presentation changes:

- i. Net interest income from financial markets has been reclassified from Trading income to Net interest income.
- ii. These items are now shown on the face of the income statement and have been reclassified from Non-interest income.

Measurement changes:

- iii. Interest expense
Other NZ IFRS adjustments resulted in a decrease of \$1 million for the six months ended 31 March 2005 and \$2 million for the year ended 30 September 2005.
- iv. Operating expenses
 - (a) Under NZ IFRS goodwill acquired in business combinations is no longer amortised, but is subject to impairment testing at least annually. Impairment is recognised immediately in the income statement, if it occurs. As a result, the goodwill previously amortised has been reversed from the income statement and the carrying value of goodwill adjusted to a NZ IFRS basis (in accordance with the transition requirements) on transition to NZ IFRS. This resulted in a decrease to Operating expenses of \$20 million for the six months ended 31 March 2005 and \$40 million for the year ended 30 September 2005.
 - (b) Other NZ IFRS adjustments resulted in a decrease of \$2 million for the six months ended 31 March 2005 and an increase of \$4 million for the year ended 30 September 2005.

Designation of financial assets and financial liabilities

All financial instruments, designated as fair value through profit or loss from 1 October 2005 were previously recorded at fair value. There were no changes in the carrying values of these instruments on adoption of NZ IAS 32/39.

Impairment of assets

No impairment losses were recognised on non-financial assets on transition to NZ IFRS.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

NZ Banking Group				
Six Months Ended 31 March 2005				
Effect of Transition to NZ IFRS				
	Previous NZ GAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Cash flows from operating activities				
Interest income received	1,407	30	10	1,447
Interest paid	(872)	(24)	(53)	(949)
Other non-interest income received	305	3	-	308
Net (acquisition)/disposal of other trading assets	13	(716)	-	(703)
Net acquisition of other trading liabilities	-	418	-	418
Net disposal of derivative financial instruments	-	278	-	278
Non-interest expenses paid	(357)	(8)	-	(365)
Income tax paid	(95)	-	66	(29)
Net cash flows from operating activities	401	(19)	23	405
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	27	-	412	439
Net loans advanced to customers	(2,842)	-	(262)	(3,104)
Net disposal of life insurance assets	-	5	-	5
Net increase in due from related entities	-	(1,003)	-	(1,003)
Net (increase)/decrease in other assets	(16)	36	26	46
Purchase of property, plant and equipment	(34)	23	-	(11)
Purchase of capitalised computer software	-	(16)	-	(16)
Proceeds from disposal of property, plant and equipment	13	(6)	-	7
Net cash used in investing activities	(2,852)	(961)	176	(3,637)
Cash flows from financing activities				
Purchase of NZ Class shares - Treasury Stock	(1)	-	-	(1)
Net decrease in due to other financial institutions - term	(255)	-	-	(255)
Net increase in deposits	1,395	-	-	1,395
Net proceeds from debt issues	1,648	-	141	1,789
Net (decrease)/increase in due to related entities	(491)	1,003	(275)	237
Net decrease in other liabilities	(10)	(67)	(65)	(142)
Redemption of subordinated debt	(44)	44	-	-
Payment of dividends on convertible debentures	(79)	-	-	(79)
Payment of dividends on NZ Class shares	(26)	-	-	(26)
Net cash provided by financing activities	2,137	980	(199)	2,918
Net decrease in cash and cash equivalents	(314)	-	-	(314)
Cash and cash equivalents at beginning of the period	208	-	-	208
Cash and cash equivalents at end of the period	(106)	-	-	(106)
Cash and cash equivalents comprise				
Cash	128	-	-	128
Due from other financial institutions - at call	113	-	-	113
Due to other financial institutions - at call	(347)	-	-	(347)
Cash and cash equivalents at end of the period	(106)	-	-	(106)

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of operating profit after income tax expense provided on pages 82, 83 and 94.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Banking Group			
	Year Ended 30 September 2005			
	Effect of Transition to NZ IFRS			
	Previous NZ CAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Cash flows from operating activities				
Interest income received	3,009	147	(61)	3,095
Interest paid	(1,852)	(99)	(20)	(1,971)
Other non-interest income received	517	19	-	536
Net acquisition of other trading assets	(1,694)	378	-	(1,316)
Net acquisition of other trading liabilities	-	161	-	161
Net acquisition of derivative financial instruments	-	(506)	-	(506)
Non-interest expenses paid	(613)	(45)	-	(658)
Income tax paid	(218)	-	96	(122)
Net cash flows from operating activities	(851)	55	15	(781)
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	67	-	412	479
Net loans advanced to customers	(5,277)	-	3,349	(1,928)
Net disposal of life insurance assets	-	6	-	6
Net increase in due from related entities	-	(893)	650	(243)
Disposal of related entities	4,178	-	(4,178)	-
Net increase in other assets	(139)	(69)	28	(180)
Purchase of property, plant and equipment	(75)	47	-	(28)
Purchase of capitalised computer software	-	(46)	-	(46)
Proceeds from disposal of property, plant and equipment	6	-	-	6
Net cash used in investing activities	(1,240)	(955)	261	(1,934)
Cash flows from financing activities				
Purchase of NZ Class shares - Treasury Stock	(1)	-	-	(1)
Redemption of NZ Class shares	(618)	-	-	(618)
Branch capital received	698	-	-	698
Net increase in due to other financial institutions - term	629	-	-	629
Net increase in deposits	2,244	-	-	2,244
Net proceeds from debt issues	536	-	56	592
Net decrease in due to related entities	(813)	893	(276)	(196)
Net decrease in other liabilities	(59)	7	(56)	(108)
Payment of dividends on convertible debentures	(159)	-	-	(159)
Payment of dividends on NZ Class shares	(54)	-	-	(54)
Remittance to the Overseas Bank	(333)	-	-	(333)
Net cash provided by financing activities	2,070	900	(276)	2,694
Net decrease in cash and cash equivalents	(21)	-	-	(21)
Cash and cash equivalents at beginning of the year	208	-	-	208
Cash and cash equivalents at end of the year	187	-	-	187
Cash and cash equivalents comprise				
Cash	96	-	-	96
Due from other financial institutions - at call	316	-	-	316
Due to other financial institutions - at call	(225)	-	-	(225)
Cash and cash equivalents at end of the year	187	-	-	187

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of operating profit after income tax expense provided on pages 85 and 94.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Bank			
	Six Months Ended 31 March 2005			
	Effect of Transition to NZ IFRS			
	Previous NZ GAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Cash flows from operating activities				
Interest income received	1,425	47	-	1,472
Interest paid	(1,029)	(25)	-	(1,054)
Other non-interest income received	276	(4)	-	272
Net (acquisition)/disposal of other trading assets	12	(715)	-	(703)
Net acquisition of other trading liabilities	-	418	-	418
Net disposal of derivative financial instruments	-	277	-	277
Non-interest expenses paid	(432)	-	-	(432)
Income tax paid	(15)	-	-	(15)
Net cash flows from operating activities	237	(2)	-	235
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	27	-	-	27
Net loans advanced to customers	(2,905)	-	-	(2,905)
Net increase in due from related entities	-	(1,015)	-	(1,015)
Net decrease in other assets	-	42	-	42
Purchase of property, plant and equipment	(21)	16	-	(5)
Purchase of capitalised computer software	-	(16)	-	(16)
Proceeds from disposal of property, plant and equipment	5	-	-	5
Net cash used in investing activities	(2,894)	(973)	-	(3,867)
Cash flows from financing activities				
Net decrease in due to other financial institutions - term	(255)	-	-	(255)
Net increase in deposits	1,395	-	-	1,395
Net proceeds from debt issues	(100)	-	-	(100)
Net increase in due to related entities	1,448	999	-	2,447
Net decrease in other liabilities	(22)	(68)	-	(90)
Redemption of subordinated debt	(44)	44	-	-
Payment of dividends on convertible debentures	(79)	-	-	(79)
Net cash provided by financing activities	2,343	975	-	3,318
Net decrease in cash and cash equivalents	(314)	-	-	(314)
Cash and cash equivalents at beginning of the period	207	-	-	207
Cash and cash equivalents at end of the period	(107)	-	-	(107)
Cash and cash equivalents comprise				
Cash	128	-	-	128
Due from other financial institutions - at call	112	-	-	112
Due to other financial institutions - at call	(347)	-	-	(347)
Cash and cash equivalents at end of the period	(107)	-	-	(107)

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of operating profit after income tax expense provided on pages 89 and 95.

Note 47 Explanation of transition to NZ IFRS (continued)

Reconciliation of cash flows

	NZ Bank			
	Year Ended 30 September 2005			
	Effect of Transition to NZ IFRS			
	Previous NZ GAAP \$m	Presentation Changes \$m	Recognition and Measurement Changes \$m	Restated NZ IFRS \$m
Cash flows from operating activities				
Interest income received	2,964	127	-	3,091
Interest paid	(2,111)	(100)	-	(2,211)
Other non-interest income received	460	12	-	472
Net acquisition of other trading assets	(1,695)	379	-	(1,316)
Net acquisition of other trading liabilities	-	161	-	161
Net acquisition of derivative financial instruments	-	(507)	-	(507)
Non-interest expenses paid	(695)	(38)	-	(733)
Income tax paid	(71)	-	-	(71)
Net cash flows from operating activities	(1,148)	34	-	(1,114)
Cash flows from investing activities				
Net decrease in due from other financial institutions - term	67	-	-	67
Net loans advanced to customers	(5,391)	-	-	(5,391)
Net decrease in due from related entities	-	2,988	-	2,988
Net increase in other assets	(112)	(63)	-	(175)
Purchase of property, plant and equipment	(60)	47	-	(13)
Purchase of capitalised computer software	-	(46)	-	(46)
Proceeds from disposal of property, plant and equipment	4	(1)	-	3
Net cash used in investing activities	(5,492)	2,925	-	(2,567)
Cash flows from financing activities				
Branch capital received	698	-	-	698
Net increase in due to other financial institutions - term	629	-	-	629
Net increase in deposits	2,244	-	-	2,244
Net proceeds from debt issues	(100)	-	-	(100)
Net decrease in due to related entities	3,691	(2,967)	-	724
Net decrease in other liabilities	(51)	8	-	(43)
Payment of dividends on convertible debentures	(159)	-	-	(159)
Remittance to the Overseas Bank	(333)	-	-	(333)
Net cash provided by financing activities	6,619	(2,959)	-	3,660
Net decrease in cash and cash equivalents	(21)	-	-	(21)
Cash and cash equivalents at beginning of the year	207	-	-	207
Cash and cash equivalents at end of the year	186	-	-	186
Cash and cash equivalents comprise				
Cash	96	-	-	96
Due from other financial institutions - at call	315	-	-	315
Due to other financial institutions - at call	(225)	-	-	(225)
Cash and cash equivalents at end of the year	186	-	-	186

Details of the main changes brought about by the transition to NZ IFRS can be found in the notes following the reconciliations of equity and reconciliations of operating profit after income tax expense provided on pages 91 and 95.

Auditors' report



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Auditors' report

To the Directors of Westpac Banking Corporation

We have reviewed the financial statements on pages 10 to 99 and the supplementary information contained in the section 'Market Risk' on page 6. The financial statements provide information about the past financial performance and cash flows of the Westpac Banking Corporation New Zealand Branch (the 'NZ Bank') and Westpac Banking Corporation New Zealand Division (the 'NZ Banking Group') and their financial position as at 31 March 2006. This information is stated in accordance with the accounting policies set out on pages 16 to 24.

The financial statements consist of the financial statements of the NZ Bank and the consolidated financial statements of the NZ Banking Group for the six months ended 31 March 2006, and contain the supplementary information required by Clause 12(3) of the Registered Bank Disclosure Statement (Full and Half-Year – Overseas Incorporated Registered Banks) Order 2005 (the 'Order'). The supplementary information in the section 'Market Risk' on page 6 contains those disclosures required by Clause 12(4) of the Order.

Directors' responsibilities

The Directors of Westpac Banking Corporation are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2006 and their financial performance and cash flows for the six months ended on that date. They are also responsible for the preparation and presentation of the supplementary information which:

- gives a true and fair view, in accordance with Clauses 12(3), 14A and 14B of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8 of the Order in accordance with Clause 12(4) of the Order.

Reviewers' responsibilities

We are responsible for reviewing the financial statements and supplementary information disclosed in accordance with Clauses 12(2), 12(3), 14A and 14B of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the financial statements and supplementary information do not give a true and fair view of the matters to which they relate, and for reporting our findings to you.

We are also responsible for reviewing the supplementary information disclosed in accordance with Clause 12(4) of the Order and presented to us by the Directors in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the supplementary information does not comply with Schedules 7 and 8 of the Order, and for reporting our findings to you.

Auditors' report (continued)



Auditors' report

Westpac Banking Corporation

Basis of review statement

Our review has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. A review is limited primarily to enquiries of NZ Bank and NZ Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

Unqualified review statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- (a) the financial statements do not:
 - (i) comply with generally accepted accounting practice in New Zealand in accordance with both International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting and International Financial Reporting Standard 1 and New Zealand Equivalent to International Financial Reporting Standard 1, First-time Adoption of International Financial Reporting Standards;
 - (ii) give a true and fair view of the financial position of the NZ Bank and the NZ Banking Group as at 31 March 2006 and their financial performance and cash flows for the six months ended on that date; and
- (b) the supplementary information as required by Clauses 12(3), 14A and 14B of the Order does not give a true and fair view of the matters to which it relates; and
- (c) the supplementary information required by Clause 12(4) of the Order, does not comply with Schedules 7 and 8 of the Order.

Our work was completed on 4 May 2006 and our unqualified review statement is expressed as at that date.

A handwritten signature in dark ink, likely belonging to a representative of PricewaterhouseCoopers, is shown. The signature is written in a cursive, flowing style.

Chartered Accountants

Auckland

