

12 October, 2006

Preliminary financial statements for Westpac New Zealand Limited

As Westpac progresses towards incorporating key components of its New Zealand operations, it has been required to make available certain financial statements relating to the newly incorporated entity.

These accounts are attached to this release and are also available on Westpac New Zealand's website www.westpac.co.nz in the About Us/Investor News section.

Westpac New Zealand Limited (WNZL) is the company that will become the retail bank in New Zealand. However, while WNZL was incorporated earlier this year, the entity itself has little substance as the assets and liabilities that will ultimately form WNZL have yet to be transferred from Westpac Banking Corporation's New Zealand branch.

The transition of assets and liabilities (vesting) has been facilitated via an Act of Parliament with the Proposal Approval Order gazetted on 5 October 2006. Vesting is scheduled to occur on 1 November 2006.

As a result, the current WNZL accounts provide little in the way of meaningful information and provide no guide as to the expected future financial position of WNZL. To improve the usefulness of these accounts, Westpac has prepared a pro-forma balance sheet that outlines the position of WNZL as at 31 August 2006 as if the relevant assets and liabilities had transferred from the branch.

These accounts provide an indication of the assets that will ultimately support customer deposits and are not comparable to any financial statements previously prepared by Westpac on any part of its New Zealand operations.

A more detailed *General Disclosure Statement* (GDS) for WNZL will be available on 1 November 2006.

Contact

Mark Watts
Media Relations Manager
Westpac New Zealand
+64 21 222 4795

Westpac New Zealand Limited's
Financial statements

For the period 14 February 2006 – 31 August 2006

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General information

The financial statements contained in this document are provided in addition to Westpac New Zealand Limited's ('Westpac NZ') statutory reporting obligations.

Westpac Banking Corporation is reorganising its banking operations in New Zealand – details are set out in the Local incorporation section below.

This document is prepared to provide customers and investors with information on the financial position of Westpac NZ prior to its General Disclosure Statement, required pursuant to the Reserve Bank of New Zealand Act, being available from 1 November 2006.

The financial statements are provided in respect of the period 14 February 2006 to 31 August 2006.

In these financial statements:

'Bank' means Westpac New Zealand Limited;

'Banking Group' means the Bank and its subsidiaries;

'Ultimate Parent Bank' means Westpac Banking Corporation;

'Ultimate Parent Bank Group' means the Ultimate Parent Bank and its subsidiaries.

Local incorporation

Throughout its history, the Ultimate Parent Bank has conducted its New Zealand operations through a branch ('NZ Branch'). The Reserve Bank's policy is that all systemically important banks must incorporate as a local entity rather than operate through a branch structure. The NZ Branch is a systemically important bank and must therefore incorporate locally.

The Reserve Bank allows an overseas bank to operate in New Zealand as both a branch of its overseas parent and through a subsidiary. The Ultimate Parent Bank has determined that this type of 'dual registration' is the most effective option for it to comply with Reserve Bank policy, while minimising disruption to the NZ Branch's investors and customers.

Accordingly, the Ultimate Parent Bank has established the Bank to assume and carry on the New Zealand consumer and business banking operations of the NZ Branch. The Bank has applied for registration as a registered bank under the Reserve Bank of New Zealand Act 1989. The NZ Branch will continue to operate in New Zealand, retaining the Ultimate Parent Bank's New Zealand wholesale banking and financial markets business.

The reorganisation of the Ultimate Parent Bank's business will be facilitated by legislation, which is the only means by which the Ultimate Parent Bank's New Zealand consumer and business banking operations can be vested in the Bank efficiently, economically and without affecting the continuity of the provision of those banking services. The Westpac New Zealand Act 2006 ('the Act') came into effect on 14 September 2006 (other than sections 23 and 24, which repeal or amend certain enactments). The Act provides, by way of an Order in Council, for the vesting in the Bank of designated assets and liabilities of the Ultimate Parent Bank, and the time of such vesting.

It is anticipated that the Bank will commence business as a registered bank on 1 November 2006, subject to:

- an Order in Council being made to give effect to a proposal providing for the vesting of assets and liabilities in the Bank on 1 November 2006 ('Proposal Approval Order'); and
- the Bank's application for registration as a registered bank being successful.

The assets and liabilities to vest in the Bank under the Proposal Approval Order described above are expected to include all deposits and other liabilities, loans, securities, interests in land and other assets in relation to business banking (being financial services provided by the NZ Branch to small, medium and corporate business customers, agricultural businesses, and property investment and development customers), consumer banking (being the financial services provided by the NZ Branch in relation to consumers) and corporate support (being the corporate services performed by NZ Branch for the business units providing business banking and consumer services).

The Act provides that the relationship between the NZ Branch and a customer in relation to the assets and liabilities that are to be vested will become the same relationship between the Bank and that customer. The primary change will be that customers will have a relationship with a different legal entity (being a separately registered locally incorporated bank). The Bank will remain a member of the Ultimate Parent Bank Group.

Note 22 Proforma vested assets and liabilities on page 34 of these financial statements contains a proforma balance sheet showing how the Bank's asset and liability profile could look if vesting had occurred, in the manner described above, as at 31 August 2006.

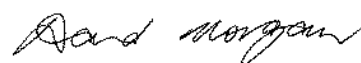
Directors' declaration

In the Director's opinion:

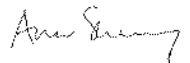
- i the financial statements and notes set out on pages 2 to 37 give a true and fair view of Westpac NZ's financial position as at 31 August 2006;
- ii proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position and financial performance of the Company and facilitate compliance of the financial statements set out on pages 3 to 37 with the Financial Reporting Act 1993; and
- iii there are reasonable grounds to believe that Westpac NZ will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Signed by two of the Directors:



David Raymond Morgan



Ann Caroline Sherry

Dated 3 October 2006

Income statements for the period 14 February to 31 August 2006

		The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
	Note		
Interest income		490	490
Interest expense		(161)	(161)
Net interest income		329	329
Non-interest income:			
Wealth management revenue		-	-
Trading income		-	-
Gain on ineffective hedges		-	-
Other non-interest income		-	-
Total non-interest income		-	-
Net operating income			
Operating expenses		(77)	(77)
Impairment losses on loans		-	-
Net profit before income tax expense		252	252
Income tax expense	4	(109)	(109)
Net profit after income tax expense		143	143
Net profit after income tax expense attributable to intragroup minority interests in subsidiary companies		-	-
Net profit after income tax expense attributable to equity holders of the Banking Group		143	143

The accompanying notes (numbered 1 to 22) form part of, and should be read in conjunction with, these financial statements.

Statements of changes in equity for the period 14 February to 31 August 2006

	The Banking Group			The Bank		
	Share Capital	Retained Profits	Cash Flow Hedge Reserve	Share Capital	Retained Profits	Cash Flow Hedge Reserve
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the period	-	-	-	-	-	-
Net profit after income tax expense	-	143	-	-	143	-
Share capital issued	1,700,001	-	-	1,700,001	-	-
Cash flow hedge reserve	-	-	-	-	-	-
Balance at the end of the period	1,700,001	143	-	1,700,001	143	-

The accompanying notes (numbered 1 to 22) form part of, and should be read in conjunction with, these financial statements.

Balance sheets as at 31 August 2006

		The Banking Group 31 August 2006 \$'000	The Bank 31 August 2006 \$'000
	Note		
Assets			
Cash		-	-
Due from other financial institutions		-	-
Derivative financial instruments		-	-
Other financial assets at fair value		-	-
Other trading assets		-	-
Loans		-	-
Due from related entities	6	2,400,491	2,400,491
Investments in related entities	6	-	-
Goodwill and other intangible assets		-	-
Property, plant and equipment		-	-
Income tax receivable		-	-
Deferred tax assets		-	-
Other assets		-	-
Total assets		2,400,491	2,400,491
<i>Less:</i>			
Liabilities			
Due to other financial institutions		-	-
Deposits at fair value		-	-
Deposits at amortised cost		-	-
Derivative financial instruments		-	-
Other trading liabilities		161	161
Current tax liabilities		109	109
Deferred tax liabilities		-	-
Provisions		-	-
Other liabilities		77	77
Total liabilities excluding due to related entities		347	347
Perpetual subordinated notes	8	700,000	700,000
Other amounts due to related entities	6	-	-
Total liabilities		700,347	700,347
Net assets		1,700,144	1,700,144
<i>Represented by:</i>			
Equity			
Ordinary share capital	7	1,700,001	1,700,001
Retained profits		143	143
Cash flow hedge reserve		-	-
Total equity		1,700,144	1,700,144

The accompanying notes (numbered 1 to 22) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the period 14 February to 31 August 2006

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Cash flows from operating activities		
Interest income received	-	-
Interest paid	-	-
Other non-interest income received	-	-
Net acquisition of other trading liabilities	-	-
Net (acquisition)/disposal of derivative financial instruments	-	-
Non-interest expenses paid	-	-
Income tax paid	-	-
Net cash flows from operating activities	-	-
Cash flows from investing activities		
Net decrease in due from other financial institutions - term	-	-
Net acquisition of other financial assets at fair value	-	-
Net loans advanced to customers	-	-
Net (increase)/decrease in due from related entities	(2,400,001)	(2,400,001)
Net (increase)/decrease in other assets	-	-
Purchase of property, plant and equipment	-	-
Purchase of capitalised computer software	-	-
Proceeds from disposal of property, plant and equipment	-	-
Proceeds from disposal of investments in related entities	-	-
Net cash used in investing activities	(2,400,001)	(2,400,001)
Cash flows from financing activities		
Issue of ordinary share capital	1,700,001	1,700,001
Net increase/(decrease) in due to other financial institutions - term	-	-
Net increase in deposits	-	-
Net proceeds from perpetual subordinated notes	700,000	700,000
Net increase/(decrease) in due to related entities	-	-
Net increase/(decrease) in other liabilities	-	-
Net cash provided by financing activities	2,400,001	2,400,001

The accompanying notes (numbered 1 to 22) form part of, and should be read in conjunction with, these financial statements.

Statements of cash flows for the period 14 February to 31 August 2006 (continued)

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at end of the period	-	-
Cash and cash equivalents comprise		
Cash	-	-
Due from other financial institutions - at call	-	-
Due to other financial institutions - at call	-	-
Cash and cash equivalents at end of the period	-	-
Reconciliation of net profit after income tax expense to net cash flows from operating activities		
Net profit after income tax expense attributable to equity holders of Banking Group	143	143
Adjustments:		
Amortisation of intangible assets	-	-
Impairment losses on loans	-	-
Depreciation/amortisation	-	-
Movement in accrued assets	(490)	(490)
Movement in accrued liabilities	238	238
Movement in income tax provisions	109	109
Net cash flows from operating activities	-	-

The accompanying notes (numbered 1 to 22) form part of, and should be read in conjunction with, these 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), 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 financial statements to be prepared by the Banking Group and the Bank since incorporation of the Bank on 14 February 2006.

As at the date of these financial statements, the Bank is not a registered bank under the Reserve Bank of New Zealand Act 1989.

For the purposes of these financial statements, the Bank's balance date is 31 August 2006 and the financial statements are prepared in respect of the period 14 February 2006 to 31 August 2006.

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

These financial statements were authorised for issue by the Board of Directors of the Bank ('Board') on 3rd October 2006.

Local incorporation

The Westpac New Zealand Act 2006 ('the Act') came into effect on 14 September 2006 (except for sections 23 and 24, which repeal or amend certain enactments). The Act provides for the vesting of designated assets and liabilities of Banking Corporation's New Zealand Branch in the Bank and the time of such vesting.

It is anticipated that the Bank will commence business as a registered bank on 1 November 2006, subject to:

- an Order in Council being made to give effect to a proposal providing for the vesting of assets and liabilities in the Bank on 1 November 2006 ('Proposal Approval Order');
- the Bank's application for registration as a registered bank being successful.

In these financial statements reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the 'Bank').
- Westpac New Zealand Limited and its subsidiaries (otherwise referred to as the 'Banking Group'). As at the date of these Financial statements the Bank has two subsidiaries:
 - Westpac NZ Operations Limited - Holding company
 - Westpac Securities NZ Limited - Funding company

It is anticipated that from or about the time of registration as a bank, the Banking Group will also include the following subsidiary entities:

- The Home Mortgage Company Limited - Residential mortgage company
- The Warehouse Financial Services Limited - Financial services company
- Westpac (NZ) Investments Limited - Property owning and capital funding company

The following accounting policies are those that the Banking Group currently applies or intends to apply following vesting.

The accounting policies are described as if they are all in place at the date of these financial statements.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value 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.

Principles of consolidation

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

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

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

The interest of minority shareholders is stated at minority's proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the Bank.

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 Banking Group have been included in the income statement in net profit.

Note 1 Statement of accounting policies (continued)

Particular accounting policies

Revenue recognition

Interest income

Interest income for all instruments measured at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, 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.

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.

Share-based compensation – options and performance share rights

Certain employees hold options and performance share rights granted by Westpac Banking Corporation ('the Ultimate Parent 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 payable to the Ultimate Parent Bank recognised. 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 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. Each balance date these assumptions are revised and the expense recognised each period takes into account the most recent estimates.

Note 1 Statement of accounting policies (continued)

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 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 Banking Group's incremental borrowing rate.

The assets and liabilities expected to vest on 1 November 2006 will be recognised at the carrying value as recorded by Westpac Banking Corporation's New Zealand Branch at the date of vesting.

Assets

Financial assets

The Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans. 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 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 Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date, the date on which the 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 Banking Group has transferred substantially all the risks and rewards of ownership.

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.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active the Banking Group establishes fair value 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.

Note 1 Statement of accounting policies (continued)

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 and loss.

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 accounted for as financial assets at fair value through profit or loss.

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 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'.

Assets carried at amortised cost

The 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 Banking Group about the following loss events:

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

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

Note 1 Statement of accounting policies (continued)

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 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 Banking Group and historical loss experience for assets with credit risk characteristics similar to those in the 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 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.

Investments in related entities

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

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 Banking Group's share of the identifiable net assets of the business acquired.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Goodwill is carried at 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.

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 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.

Note 1 Statement of accounting policies (continued)

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 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.

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 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.

Perpetual subordinated notes

Perpetual subordinated notes are measured at amortised cost. The notes qualify as tier 2 capital as defined by the Reserve Bank for capital adequacy purposes.

Note 1 Statement of accounting policies (continued)

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 balance 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 balance date less the fair value at the balance 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 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 scheme.

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 are measured at amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the balance date are measured at the estimated cash outflows, discounted using market yields at the balance 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.

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.

Equity and reserves

Ordinary shares

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

Note 1 Statement of accounting policies (continued)

Cash flow hedge reserve

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

Hedging

The Banking Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The 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 Banking Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the Banking Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Banking Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items.

A hedge is regarded as highly effective if, at inception and throughout its life, the Banking Group can expect 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.

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 transferred to the income statement in the periods in which the hedged item affects profit or loss.

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

Note 1 Statement of accounting policies (continued)

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 Banking Group will primarily offer finance leases. The 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 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 Banking Group will mainly lease 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 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 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 settlement process.

Netting of cash flows

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

Note 2 Risk management

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

Subject to the Bank's registration as a registered bank, the Risk Management Framework described in this note will apply when the Bank commences operations on 1 November 2006.

The Ultimate Parent Bank Group Risk Management Framework and Governance

The Board is responsible for establishing and implementing the Risk Management Framework, including reviewing the Bank's financial statements and the Bank's internal and external audit processes.

The Bank is ultimately a subsidiary of the Ultimate Parent Bank and therefore a member of the group of companies comprising the Ultimate Parent Bank and its subsidiaries ('Ultimate Parent Bank Group'). Accordingly, the Banking Group's Risk Management Framework is closely aligned with the Ultimate Parent Bank's Risk Framework ('Group Risk Framework').

The Board will apply the Group Risk Framework and may supplement or enhance the Group Risk Framework if it considers it appropriate to do so. The Banking Group's Risk Management Framework is overseen by the Ultimate Parent Bank's Board Audit Committee ('BAC') and the Board Risk Management Committee ('BRMC'). The BAC and BRMC are the subcommittees of the Ultimate Parent Bank's Board that are responsible for monitoring risk management performance and controls across the Ultimate Parent Bank Group.

The Bank's Risk Management Framework and Governance

The Bank's Risk Management Framework consists of the policies, procedures, systems, processes, data, roles and responsibilities and controls that manage the application and governance of risk within the Bank.

Governance is an essential element in achieving effective oversight and management of the Bank's risk. Effectively managing the risks inherent in the business is a key strategy of the Bank as well as providing support for the Bank's reputation, performance and future success. This Risk Management Framework is approved by the Board and implemented through the Bank's Chief Executive Officer ('CEO') and the executive management team.

Implementation is achieved by developing policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

Core Risk Principles

Ultimate Parent Bank Group's core risk principles are the key guidelines for all risk management. These principles reflect the standards and ideals expressed in the Ultimate Parent Bank Group's vision, values and code of conduct and are embedded in all levels of risk management policy including rules, procedures and training. The Bank, as part of the Ultimate Parent Bank Group, has adopted and will utilise these guidelines.

The principles for managing the Bank's risk are:

- aligning actions with 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 Bank will have 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 will allow 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 will be attained through the provision of consolidated representations by senior management to the General Manager Risk Management. The results of this process will be reported to the New Zealand Operational Risk & Compliance Committee ('NZOPCO'), chaired by the CEO. The CEO will then provide management assurance to the BRMC, the BAC and the Chief Executive Officer of the Ultimate Parent Bank.

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

Note 2 Risk management (continued)

Categories of risk

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

The risk management framework identifies four broad categories of risk:

- Credit risk: the potential for financial loss where a customer or counterparty fails to meet their financial obligations to the Bank.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Compliance risk: the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice, and of failing to meet the Bank's own ethical standards.
- Market risk: the risk to earnings from changes in market factors. These risks will be monitored daily against a comprehensive limit framework that includes VaR, aggregate market position and sensitivity, product and geographic thresholds. The principal risk components of this monitoring process are:
 - Currency risk: the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities;
 - Interest rate risk: the potential loss arising from the changes in the value of a financial instruments due to changes in market interest rates or their implied volatilities;
 - Equity risk: the potential loss arising from decline in the value of equity instruments due to changes in their equity market processes or implied volatilities;
 - Liquidity risk: the potential loss arising from cash outflows exceeding cash inflows over a given period.

Additional details surrounding the risk management activities relating to the management of these risks follows.

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 Bank. It will arise primarily from the Bank's lending activities, as well as from transactions.

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

In applying its Control Principles of Credit, the Bank will recognize and reflect the differences between markets in the way credit risks are approved and managed:

- Program approach: The Bank will manage high-volume customer credit portfolios on an exception basis by application of credit scorecards and policy rules.
- Transaction approach: The Bank will evaluate other credit requests by undertaking detailed individual customer and transaction risk analysis and tailors facility, terms and conditions to suit.

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

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

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

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

Note 2 Risk management (continued)

Operational Risk and Compliance Risk

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

The Bank will use the Ultimate Parent Bank Group Operational Risk Management Framework as a tool to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This framework outlines the business requirements for managing Operational Risk with respect to Governance, Risk and Control Assessments, Incident Management, Operational Risk in Change, Reporting and Monitoring and Operational Risk Capital Allocation.

A tangible benefit of the Ultimate Parent Bank Group Risk Framework is to ensure compliance with relevant legislative and regulatory requirements.

The Bank will be subject to regulation and regulatory oversight. Any significant regulatory developments 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 Bank's control.

Regulatory responsibilities have increased significantly and, 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.

Effective compliance risk management will enable the Bank to identify emerging issues and where necessary put in place preventative measures.

The Bank has a dedicated Operational Risk and Compliance function.

NZOPCO will meet quarterly and is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. The committee monitors the business unit operational risk profiles and the action plans, and is required to escalate material matters to the Board, Group Operational Risk & Compliance Committee ('OPCO') and the BRMC, where material.

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.

The treatment of the only material market risk the Bank will have exposure to is described below.

Non-trading risk

Management of structural interest rate risk

The Bank's structural interest rate risk will arise from lending and deposit-taking activity in the normal course of business and through the investment of capital and other non-interest bearing liabilities. This structural interest rate risk will be transferred to the Ultimate Parent Bank Group, which will then manage the sensitivity of the Banking Group book's net interest income to changes in wholesale market interest rates. NZ Treasury's risk management objective will be to help ensure the reasonable stability of net interest income over time. These activities will be performed under the direction of the Ultimate Parent Bank Group, specifically the Ultimate Parent Bank Group Treasury with oversight provided by the Ultimate Parent Bank Group's Market Risk Management unit and the Ultimate Parent Bank Group's Market Risk Committee ('MARCO').

Once transferred to the Ultimate Parent Bank Group, net interest income sensitivity will be managed in terms of the net interest income at risk modeled over a three-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed will consider all on and off-balance sheet accrual accounted assets and liabilities in New Zealand.

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

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

The net interest income simulation and limit frameworks will be reviewed and approved annually by BRMC. This will seek to ensure 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.

Note 2 Risk management (continued)

Liquidity Risk

The liquidity risk within the Bank will be managed in a manner consistent with the Ultimate Parent Bank Group's liquidity management framework that is outlined below.

Liquidity risk is the potential inability to meet payment obligations of the Bank. The Ultimate Parent Bank Group Treasury will administer liquidity management in New Zealand and will be responsible for monitoring the funding base and ensuring that it is prudently maintained and adequately diversified.

Ultimate Parent Bank Group Treasury manages Ultimate Parent Bank Group funding with oversight from the MARCO and the BRMC. The BRMC approves and monitors a range of policies relating to liquidity and liability generation. Quarterly compliance reports are submitted to the MARCO and the BRMC.

Key aspects of the liquidity management strategy are as follows:

Annual liquidity risk framework review

The Ultimate Parent Bank Group Treasury's annual liquidity management review includes:

- (a) modelling approach;
- (b) scenarios covered;
- (c) limit determination; and
- (d) levels of liquid asset holdings.

MARCO and the Ultimate Parent Bank Group Risk Reward Committee ("GRRC") reviews the Banking Group's liquidity management approach before it is submitted for approval by the BRMC.

The liquidity risk management framework models the Bank's ability to fund under both normal conditions and during a crisis situation. This approach seeks to ensure that this funding framework is sufficiently flexible to provide liquidity under a wide range of market conditions.

Annual funding plan

Each year the Ultimate Parent Bank 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.

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

Sources of liquidity

The principal sources of the Bank's liquidity will be 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 will be sufficient to meet the Banking Group's present requirements.

Independent Control Units

The Bank has an independent internal audit unit ("Group Assurance NZ") which reports to the Board, through the Chairman, as well as to the Ultimate Parent Bank.

Group Assurance NZ, as an independent function, has no direct authority over the activities of management. It has unlimited access to all the Bank'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 Bank. The level of business risk determines the scope and frequency of individual audits. The Head of NZ Audit reports for functional purposes to the Board and the General Manager Group Assurance and for administrative purposes to the General Manager Risk Management NZ, a member of the Bank's Executive Team.

Reviews in respect of risk management systems

Group Assurance NZ will participate quarterly in the Management Assurance Programme in order to assess the adequacy of the governance framework supporting operational risk management.

Ultimate Parent Bank 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 by the Bank. Group Assurance NZ also annually reviews the Bank's Operational Risk framework.

The reviews discussed in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank.

Note 3 Interest earning assets and interest bearing liabilities

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Interest earning and discount bearing assets	2,400,491	2,400,491
Interest and discount bearing liabilities	700,000	700,000

Note 4 Income tax expense

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Income tax expense		
Current tax	109	109
Total income tax expense	109	109
Operating profit before income tax expense	252	252
Tax calculated at tax rate of 33 percent	84	84
Exempt dividends	-	-
Expenses not deductible for tax purposes	25	25
Other items	-	-
Total income tax expense	109	109

Note 5 Impaired assets

There are no impaired assets, restructured assets, past due assets or assets under administration as at 31 August 2006. As a result there are no individually assessed provisions or collectively assessed provisions as at 31 August 2006.

Note 6 Related entities

Banking Group

The Banking Group consists of the Bank and all its subsidiaries. As at 31 August 2006, the Bank has two wholly owned subsidiaries:

Name of Subsidiary	Principal Activity	Notes
Westpac NZ Operations Limited	Holding Company	
Westpac Securities NZ Limited	Funding Company	Not commenced trading

Transactions and balances with related parties are disclosed separately in these financial statements. Both subsidiaries above have a balance date of 30 September.

The Bank's immediate parent, Westpac New Zealand Group Limited has entered into a loan agreement with Westpac Banking Corporation NZ Branch for \$2.4 billion. The loan is repayable on demand and subject to standard terms and conditions.

The Bank has a deposit with Westpac Banking Corporation NZ Branch for \$2.4 billion. The deposit is subject to standard terms and conditions.

Nature of transactions

As at the date of these financial statements, the Bank has not provided loan finance and current account banking facilities to the other members of the Banking Group.

Note 7 Ordinary share capital

	The Banking Group 31 August 2006 Number of Issued Shares	The Bank 31 August 2006 Number of Issued Shares
Ordinary shares at beginning of the period	-	-
Shares issued during the period	1,700,001,000	1,700,001,000
Ordinary shares at the end of the period	1,700,001,000	1,700,001,000
	\$'000	\$'000
Ordinary shares at beginning of the period	-	-
Shares issued during the period	1,700,001	1,700,001
Ordinary shares at the end of the period	1,700,001	1,700,001

Voting rights

The holder of the ordinary shares is entitled to full voting rights.

Notes to the financial statements

Note 8 Perpetual subordinated notes

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

Note 9 Commitments and contingent liabilities

As at 31 August 2006 the Bank has no commitments or contingent liabilities, other than obligations in relation to assets and liabilities which are expected to vest in the Bank on 1 November 2006.

Refer to Note 22 Proforma vested assets and liabilities (Note (vi) Commitments and contingencies) on page 37 of these financial statements for general description of the Bank's anticipated commitments and liabilities upon such vesting.

Note 10 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 Banking Group adjusts this contractual profile for expected customer behaviour.

The Banking Group 31 August 2006								
	At Call \$'000	Less Than 1 Month \$'000	1 Month to 3 Months \$'000	3 Months to 1 Year \$'000	1 Year to 5 Years \$'000	Over 5 Years \$'000	No Specific Maturity \$'000	Total \$'000
Monetary assets								
Cash	-	-	-	-	-	-	-	-
Due from related entities	-	-	2,400,491	-	-	-	-	2,400,491
Other monetary assets	-	-	-	-	-	-	-	-
Total monetary assets	-	-	2,400,491	-	-	-	-	2,400,491
Non-monetary assets	-	-	-	-	-	-	-	-
Total assets	-	-	2,400,491	-	-	-	-	2,400,491
Monetary liabilities								
Deposits at fair value	-	-	-	-	-	-	-	-
Deposits at amortised cost	-	-	-	-	-	-	-	-
Other monetary liabilities	-	-	238	-	-	-	-	238
Perpetual subordinated notes	-	-	-	-	-	-	700,000	700,000
Other monetary liabilities	-	-	-	-	-	-	-	-
Total monetary liabilities	-	-	238	-	-	-	700,000	700,238
Non-monetary liabilities	-	-	-	-	-	-	109	109
Total liabilities	-	-	238	-	-	-	700,109	700,347
Net assets	-	-	2,400,253	-	-	-	(700,109)	1,700,144

The Bank 31 August 2006								
	At Call \$'000	Less Than 1 Month \$'000	1 Month to 3 Months \$'000	3 Months to 1 Year \$'000	1 Year to 5 Years \$'000	Over 5 Years \$'000	No Specific Maturity \$'000	Total \$'000
Monetary assets								
Cash	-	-	-	-	-	-	-	-
Due from related entities	-	-	2,400,491	-	-	-	-	2,400,491
Other monetary assets	-	-	-	-	-	-	-	-
Total monetary assets	-	-	2,400,491	-	-	-	-	2,400,491
Non-monetary assets	-	-	-	-	-	-	-	-
Total assets	-	-	2,400,491	-	-	-	-	2,400,491
Monetary liabilities								
Deposits at fair value	-	-	-	-	-	-	-	-
Deposits at amortised cost	-	-	-	-	-	-	-	-
Other monetary liabilities	-	-	238	-	-	-	-	238
Perpetual subordinated notes	-	-	-	-	-	-	700,000	700,000
Other amounts due to related entities	-	-	-	-	-	-	-	-
Total monetary liabilities	-	-	238	-	-	-	700,000	700,238
Non-monetary liabilities	-	-	-	-	-	-	109	109
Total liabilities	-	-	238	-	-	-	700,109	700,347
Net assets	-	-	2,400,253	-	-	-	(700,109)	1,700,144

Note 11 Credit exposures to connected persons and non-bank connected persons

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Banking Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits, net of specific provisions and exclude advances to connected persons of a capital nature. Peak end-of-day credit exposures to connected persons have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the quarter and then dividing that amount by the Banking Group's tier one capital as at 31 August 2006. Credit exposures to connected persons reported in the table below have been calculated on a gross basis.

	The Banking Group As at 31 August 2006 \$'000	The Banking Group Peak Over The Three Months Ended 31 August 2006 \$'000
Credit exposure to connected persons	2,400,491	2,400,491
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group at end of period	141.2%	141.2%
Credit exposure to non-bank connected persons	-	-
Credit exposure to non-bank connected persons expressed as a percentage of tier one capital of the Banking Group at end of period	-	-

As at 31 August 2006, the Banking Group did not have a credit rating contingent limit. The Banking Group's exposure to connected persons was \$2,400,491,000.

The restrictions on aggregate credit exposures to all connected persons and non-bank connected persons, as set out in the Conditions of Registration expected to be imposed on the Bank, were not applicable during the three months ended 31 August 2006, as the Bank was not a registered Bank during that period. Upon the vesting of designated assets and liabilities in the Bank, and the Bank's commencement of operations as a registered bank, on 1 November 2006, the Bank will be compliant with the restrictions in the Conditions of Registration expected to be imposed on the Bank for connected persons exposures. See the Local incorporation section on page 1 for further information.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with the connected banks. These arrangements are called risk lay-off arrangements. As at 31 August 2006, the Banking Group had no aggregate contingent credit exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (other than counterparties which are connected persons). There were no allowances for impairment losses on individual financial assets against credit exposures to connected persons as at 31 August 2006.

The aggregate amount of the Banking Group's specific provisions provided against credit exposures to connected persons was nil as at 31 August 2006.

Notes to the financial statements

Note 12 Concentration of credit exposures

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
On-balance sheet credit exposures consists of		
Cash	-	-
Due from other financial institutions	-	-
Due from related entities	2,400,491	2,400,491
Other assets	-	-
Total on-balance sheet credit exposures	2,400,491	2,400,491
Analysis of on-balance sheet credit exposures by geographical areas		
Within New Zealand	2,400,491	2,400,491
Australia and Asia-Pacific	-	-
United Kingdom and Europe	-	-
North America	-	-
Total on-balance sheet credit exposures	2,400,491	2,400,491
Analysis of on-balance sheet credit exposures by industry and economic sector		
Government and other public authorities	-	-
Agriculture	-	-
Other primary industries	-	-
Commercial and financial	-	-
Real estate - construction	-	-
Real estate - mortgage	-	-
Instalment loans and other personal lending	-	-
Subtotal	-	-
Due from related entities	2,400,491	2,400,491
Other assets	-	-
Total on-balance sheet credit exposures	2,400,491	2,400,491
Off-balance sheet credit and derivative exposures by credit equivalent consists of		
Contingent liabilities and commitments	-	-
Derivatives	-	-
Total off-balance sheet credit and derivative exposures by credit equivalent	-	-
Analysis of off-balance sheet credit exposures by industry and economic sector		
Government and other public authorities	-	-
Agriculture	-	-
Other primary industries	-	-
Commercial and financial	-	-
Real estate - construction	-	-
Real estate - mortgage	-	-
Instalment loans and other personal lending	-	-
Total off-balance sheet credit and derivative exposures by credit equivalent	-	-

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 12 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

10 - 20% of Banking Group's equity	As at 31 August 2006	Peak End-of-Day for the Three Months Ended 31 August 2006
Individual counterparties		
Bank counterparties	-	-
Non-bank counterparties	-	-
Closely related counterparties		
Bank counterparties	-	-
Non-bank counterparties	-	-

The peak end-of-day exposure and as at exposures have been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the three months ended 31 August 2006 and then dividing that by the Banking Group's equity as at 31 August 2006. 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 connected persons or any OECD government. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of specific provisions.

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

10 - 20% of Banking Group's equity	As at 31 August 2006 \$'000	%
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	-	-
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 Banking Group predominantly has its market related contracts (derivatives) with other financial institutions (which include other banks and corporates) and the Group.

Notes to the financial statements

Note 13 Concentration of funding

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Funding consists of		
Deposits at fair value	-	-
Deposits at amortised cost	-	-
Perpetual subordinated notes	700,000	700,000
Other amounts due to related entities	-	-
Total funding	700,000	700,000
Analysis of funding by product		
Saving accounts	-	-
Certificates of deposits	-	-
Demand deposits	-	-
Other deposits and borrowings	-	-
Perpetual subordinated notes	700,000	700,000
Subtotal	700,000	700,000
Due to other financial institutions	-	-
Other amounts due to related entities	-	-
Total funding	700,000	700,000
Analysis of funding by geographical areas		
New Zealand	700,000	700,000
Australia and Asia-Pacific	-	-
United Kingdom and Europe	-	-
North America	-	-
Total funding	700,000	700,000
Analysis of funding by industry sector		
Government and other public authorities	-	-
Agriculture	-	-
Other primary industries	-	-
Commercial and financial	700,000	700,000
Households	-	-
Subtotal	700,000	700,000
Other amounts due to related entities	-	-
Total funding	700,000	700,000

Note 14 Fair value of financial instruments

Quoted market prices, when available, are used as the measure of fair values. Where quoted market prices do not exist, fair values presented are estimates derived using present 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 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.

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.

Note 14 Fair value of financial instruments (continued)

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 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.

	The Banking Group	
	31 August 2006 Carrying Amount \$'000	31 August 2006 Estimated Fair Value \$'000
Financial assets		
Cash	-	-
Due from other financial institutions	-	-
Due from related entities	2,400,491	2,400,491
Other financial assets	-	-
Total financial assets	2,400,491	2,400,491
Non-financial assets	-	-
Total assets	2,400,491	2,400,491
Financial liabilities		
Deposits at fair value	-	-
Deposits at amortised cost	-	-
Other financial liabilities	238	238
Perpetual subordinated notes	700,000	700,000
Other amounts due to related entities	-	-
Total financial liabilities	700,238	700,238
Non-financial liabilities	109	109
Total liabilities	700,347	700,347

	The Bank	
	31 August 2006 Carrying Amount \$'000	31 August 2006 Estimated Fair Value \$'000
Financial assets		
Cash	-	-
Due from other financial institutions	-	-
Due from related entities	2,400,491	2,400,491
Other financial assets	-	-
Total financial assets	2,400,491	2,400,491
Non-financial assets	-	-
Total assets	2,400,491	2,400,491
Financial liabilities		
Deposits at fair value	-	-
Deposits at amortised cost	-	-
Other financial liabilities	238	238
Perpetual subordinated notes	700,000	700,000
Other amounts due to related entities	-	-
Total financial liabilities	700,238	700,238
Non-financial liabilities	109	109
Total liabilities	700,347	700,347

Notes to the financial statements

Note 15 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 assets and liabilities. These mismatches will be 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 August 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 Banking Group's interest rate risk management framework is provided in Note 2.

The Banking Group 31 August 2006										
	Less Than 1 Month \$'000	1 Month to 3 Months \$'000	3 Months to 1 Year \$'000	1 Year to 2 Years \$'000	2 Years to 3 Years \$'000	3 Years to 4 Years \$'000	4 Years to 5 Years \$'000	5 Years to Over \$'000	Non- Interest Bearing \$'000	Weighted Average Interest Rate % ¹
Financial assets										
Cash	-	-	-	-	-	-	-	-	-	-
Due from related entities	-	2,400,491	-	-	-	-	-	-	2,400,491	7.45
Other financial assets	-	-	-	-	-	-	-	-	-	-
Total financial assets	-	2,400,491	-	-	-	-	-	-	2,400,491	-
Non-financial assets	-	-	-	-	-	-	-	-	-	-
Total assets	-	2,400,491	-	-	-	-	-	-	2,400,491	-
Financial liabilities										
Deposits at fair value	-	-	-	-	-	-	-	-	-	-
Deposits at amortised cost	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	238	-
Perpetual subordinated notes	-	700,000	-	-	-	-	-	-	-	8.39
Other amounts due to related entities	-	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	700,000	-	-	-	-	-	-	238	-
Non-financial liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	700,000	-	-	-	-	-	-	238	-
Off-balance sheet financial instruments										
Net interest rate contracts (principal):										
Receivable/(payable)	-	-	-	-	-	-	-	-	-	-

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

The Bank 31 August 2006										
	Less Than 1 Month \$'000	1 Month to 3 Months \$'000	3 Months to 1 Year \$'000	1 Year to 2 Years \$'000	2 Years to 3 Years \$'000	3 Years to 4 Years \$'000	4 Years to 5 Years \$'000	5 Years to Over \$'000	Non- Interest Bearing \$'000	Weighted Average Interest Rate % ¹
Financial assets										
Cash	-	-	-	-	-	-	-	-	-	-
Due from related entities	-	2,400,491	-	-	-	-	-	-	2,400,491	7.45
Other financial assets	-	-	-	-	-	-	-	-	-	-
Total financial assets	-	2,400,491	-	-	-	-	-	-	2,400,491	-
Non-financial assets	-	-	-	-	-	-	-	-	-	-
Total assets	-	2,400,491	-	-	-	-	-	-	2,400,491	-
Financial liabilities										
Deposits at fair value	-	-	-	-	-	-	-	-	-	-
Deposits at amortised cost	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	238	-
Perpetual subordinated notes	-	700,000	-	-	-	-	-	-	-	8.39
Other amounts due to related entities	-	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	700,000	-	-	-	-	-	-	238	-
Non-financial liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	700,000	-	-	-	-	-	-	238	-
Off-balance sheet financial instruments										
Net interest rate contracts (principal):										
Receivable/(payable)	-	-	-	-	-	-	-	-	-	-

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

Note 16 Capital adequacy

	The Banking Group 31 August 2006	The Bank 31 August 2006
Capital adequacy ratios		
Tier 1 capital as a percentage of risk weighted exposures	354.1%	354.1%
Total capital expressed as a percentage of the risk weighted exposure	499.9%	499.9%
Reserve Bank of New Zealand minimum ratios:		
Tier 1 capital as a percentage of risk weighted exposures	4.0%	4.0%
Total capital as a percentage of risk weighted exposures	8.0%	8.0%

The information contained in the table below has been derived in accordance with the Conditions of Registration which the Bank expects will be imposed on it pursuant to section 74 (4) (b) of the Reserve Bank of New Zealand Act 1989 which relate to capital adequacy and the document entitled Capital Adequacy Framework (BS2) issued by the Reserve Bank.

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

	The Banking Group 31 August 2006 \$'000	The Bank 31 August 2006 \$'000
Tier 1 capital		
Paid in share capital	1,700,001	1,700,001
Revenue and similar reserves	-	-
Current period's retained profits	143	143
Less deductions from Total capital		
Goodwill	-	-
Other intangible assets	-	-
Cash flow hedging reserve	-	-
Total Tier 1 capital	1,700,144	1,700,144
Tier 2 capital - Upper level Tier 2 capital		
Perpetual subordinated notes	700,000	700,000
Tier 2 capital - Lower level Tier 2 Capital	-	-
Total Tier 2 Capital	700,000	700,000
Total Tier 1 capital plus Tier 2 capital	2,400,144	2,400,144
Less deductions from Total capital	-	-
Capital	2,400,144	2,400,144
Total risk-weighted exposures		
On-balance sheet exposures	480,098	480,098
Off-balance sheet exposures	-	-
	480,098	480,098

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

The Ultimate Parent Bank Group and the Ultimate Parent Bank are subject to the capital adequacy requirements as specified by the Australian Prudential Regulatory Authority ('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 Ultimate Parent Bank Group and the Ultimate Parent Bank are required to hold minimum capital at least equal to that specified under the Basel framework.

The Ultimate Parent Bank Group and the Ultimate Parent 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.

Notes to the financial statements

Note 16 Capital adequacy (continued)

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 – New Zealand Incorporated Registered Banks) Order 2005 (New Zealand).

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

Calculation of on-balance sheet exposures

The Banking Group 31 August 2006				
	Principal Amount \$'000		Risk Weighting	Risk Weighted Exposure \$'000
Cash and short term claims on government	-		0%	-
Long term claims on government	-		10%	-
Claims on banks	2,400,491		20%	480,098
Claims on public sector entities	-		20%	-
Residential mortgages	-		50%	-
Other assets	-		100%	-
Non-risk weighted assets	-			-
Total on-balance sheet exposures	2,400,491			480,098

Calculation of off-balance sheet securitised mortgage exposures

Off-balance sheet securitised mortgage exposure	-	-	-
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Calculation of off-balance sheet and derivative exposures

The Banking Group 31 August 2006					
	Principal Amount \$'000	Credit Conversion Factor	Credit Equivalent Amount \$'000	Average Counterparty Risk Weighting	Risk Weighted Exposure \$'000
Direct credit substitutes	-		-		-
Total direct credit substitutes	-		-		-
Commitments	-		-		-
Total commitments	-		-		-
Market related contracts (derivatives)	-		-		-
Total market related contracts (derivatives)	-		-		-
Total off-balance sheet and derivative exposures	-		-		-
Total risk weighted exposures	-		-		480,098

Note 16 Capital adequacy (continued)

Calculation of on-balance sheet exposures

The Bank 31 August 2006			
	Principal Amount \$'000	Risk Weighting	Risk Weighted Exposure \$'000
Cash and short term claims on government	-	0%	-
Long term claims on government	-	10%	-
Claims on banks	2,400,491	20%	480,098
Claims on public sector entities	-	20%	-
Residential mortgages	-	50%	-
Other assets	-	100%	-
Non-risk weighted assets	-	-	-
Total on-balance sheet exposures	2,400,491		480,098

Calculation of off-balance sheet securitised mortgage exposures

Off-balance sheet securitised mortgage exposures	-
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Calculation of off-balance sheet and derivative exposures

	Principal Amount \$'000	Credit Conversion Factor	Credit Equivalent Amount \$'000	Average Counterparty Risk Weighting	Risk Weighted Exposure \$'000
Direct credit substitutes	-	-	-	-	-
Total direct credit substitutes	-	-	-	-	-
Commitments	-	-	-	-	-
Total commitments	-	-	-	-	-
Market related contracts (derivatives)	-	-	-	-	-
Total market related contracts (derivatives)	-	-	-	-	-
Total off-balance sheet and derivative exposures	-	-	-	-	-
Total risk weighted exposures					480,098

Notes to the financial statements

Note 17 Segment information

The Banking Group will operate predominantly in the finance and residential mortgage industries within New Zealand.

The basis of segment reporting reflects the management of the business within the 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 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 Other Banking segment includes the results of external funding activities as well as activities that cannot be directly attributable to the Retail segment within the New Zealand geographical area.

	The Banking Group Period Ended 31 August 2006		
	Retail \$'000	Other Banking \$'000	Total \$'000
Revenue from external customers	-	-	-
Internal charges ¹	-	-	-
Total segment revenue	-	-	-
Interest income	490	-	490
Interest expense	(161)	-	(161)
Internal charges ¹	-	-	-
Net interest income	329	-	329
Net non-interest income	-	-	-
Internal charges ¹	-	-	-
Net operating income	329	-	329
Depreciation and amortisation	-	-	-
Other operating expenses	(77)	-	(77)
Internal charges ¹	-	-	-
Total operating expenses	(77)	-	(77)
Impairment losses on loans and advances	-	-	-
Reversals of impairment losses on loans	-	-	-
Net profit before income tax expense	252	-	252
Income tax expense	-	-	(109)
Net profit after income tax expense attributable to intragroup minority interests in subsidiary companies	-	-	143
Net profit after income tax expense attributable to equity holders of the Banking Group	-	-	143
External assets	-	-	-
Intragroup assets	-	-	2,400,491
Total assets	-	-	2,400,491
External liabilities	-	-	-
Intragroup liabilities	-	-	700,238
Tax liabilities	-	-	109
Total liabilities	-	-	700,347
Acquisition of property, plant and equipment and intangible assets	-	-	-

¹ Internal charges are eliminated at the ultimate parent level.

Note 18 Auditors' remuneration

	The Banking Group Period Ended 31 August 2006 \$'000	The Bank Period Ended 31 August 2006 \$'000
Auditor of the parent entity		
Audit services	77	77
Other services:		
Further assurance services	-	-
Tax services	-	-
Total remuneration for audit and non audit services	77	77

It is the 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 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 19 Key management disclosures

Key management personnel are defined as being Directors and senior management of the Banking Group. The information relating to the key management personnel disclosed includes transactions with those individuals, their close family members and their controlled entities. There have been no transactions with any of the key management personnel during the period.

Note 20 Securitisation, funds management and other fiduciary activities

Securitisation

As at 31 August 2006, the Bank had no securitised assets nor did it have any involvement in the origination of securitised assets or the marketing or servicing of securitisation schemes.

Funds management and other fiduciary activities

As at 31 August 2006, the Bank did not have any involvement in any trust, custodial, funds management or other fiduciary activities.

Involvement with the Ultimate Parent Bank Group

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

Risk management

The Ultimate Parent Bank Group has in place policies and procedures to ensure that if any marketing or distribution of any insurance products or any of the activities identified above are carried out by the Banking Group, they 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 Ultimate Parent Bank 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 Ultimate Parent Bank 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 Ultimate Parent Bank Group.

Note 21 Insurance business

As at the date of these financial statements, the Banking Group did not conduct any insurance business and has not been involved in the marketing and distribution of insurance products. It is anticipated that, subject to the Bank's application for registration as a registered bank being successful, the Bank will market and distribute both life and general insurance products. The life insurance products will be underwritten by Westpac Life – NZ – Limited. The general insurance products will be underwritten by external third party insurance companies. Disclosure statements will be made in all marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

Note 22 Proforma vested assets and liabilities

As set out in the Local incorporation section on page 1, it is anticipated that certain assets and liabilities of the New Zealand branch of the Ultimate Parent Bank to be designated in the Proposal Approval Order will vest in the Bank on 1 November 2006. This note has been prepared to provide guidance on the Bank's financial position as at 1 November 2006 by displaying a proforma balance sheet and supporting notes prepared on the basis of the vesting of the designated assets and liabilities from the business units of consumer banking, business banking and corporate support, as they are expected to be designated in the Proposal Approval Order, having occurred on 31 August 2006.

The proforma balance sheet is prepared only in respect of the Bank and does not include any investment in subsidiaries in relation to the entities which are expected to be sold to the Bank on or about the time of registration. The proforma financial information aggregates data from the financial statements of the Bank as at 31 August 2006, and data from the general ledger of Westpac Banking Corporation's New Zealand Branch as at 31 August 2006 relating to those assets and liabilities that are proposed to vest in the Bank on 1 November 2006.

The accounting policies in Note 1 have been applied to the preparation of these proforma accounts. This note is intended as a guide only and is not a statement of the actual position as at 1 November 2006. As the assets and liability profile of NZ Branch will change as a result of normal business between 31 August 2006 and 1 November 2006, the assets and liabilities which will vest in the Bank on 1 November 2006 almost certainly will differ from the amounts disclosed in this note.

	Note	The Bank 31 August 2006 \$'m
Assets		
Cash		109
Due from other financial institutions		-
Derivative financial instruments		-
Other financial assets at fair value		-
Other trading assets		1,000
Loans	(i), (ii)	35,981
Due from related entities	(v)	4
Investments in related entities		-
Goodwill and other intangible assets		602
Property, plant and equipment		24
Income tax receivable		-
Deferred tax assets		68
Other assets		130
Total assets		37,918
<i>Less:</i>		
Liabilities		
Due to other financial institutions		7
Deposits at fair value	(iv)	4,397
Deposits at amortised cost	(iv)	23,208
Derivative financial instruments		3
Other trading liabilities		-
Current tax liabilities		-
Deferred tax liabilities		-
Provisions		56
Other liabilities		361
Total liabilities excluding due to related entities		28,032
Perpetual subordinated notes		700
Other amounts due to related entities	(v)	7,486
Total liabilities		36,218
Net assets		1,700
<i>Represented by:</i>		
Equity		
Ordinary share capital		1,700
Retained profits		-
Total equity		1,700

Notes to the financial statements

Note 22 Proforma vested assets and liabilities (continued)

Note (i) Loans

	The Bank As At 31 August 2006 \$/m
Overdrafts	993
Credit card outstandings	930
Overnight and at call money market loans	1,556
Term loans:	
Housing	24,054
Non-housing	8,588
Other	-
Total gross loans	36,121
Provisions for impairment losses on loans	140
Total net loans	35,981

Note (ii) Impaired assets

	The Bank As At 31 August 2006 \$/m
Gross individually impaired assets	45
Individually assessed provisions	(15)
Net individually impaired assets	30
Gross individually impaired assets excluding restructured assets	45
Restructured assets	-
Total gross individually impaired assets	45
Individually assessed provisions	15
Collectively impaired provision	138
Total impairment provisions	153
Provisions for impairment losses on loans	140
Provisions for impairment losses on off-balance sheet credit exposures	13
Total impairment provisions	153
Past due assets¹	40
Other assets under administration¹	-

¹ Past due assets and other assets under administration are not impaired assets.

Note 22 Proforma vested assets and liabilities (continued)

Note (iii) Interest bearing assets and interest bearing liabilities

	The Bank As At 31 August 2006 \$'m
Interest earning and discount bearing assets	37,122
Interest earning and discount bearing liabilities	33,795

Note (iv) Deposits

	The Bank As At 31 August 2006 \$'m
Deposits at fair value	
Certificates of deposit	4,397
Total deposits at fair value	4,397
Deposits at amortised cost	
Non-interest bearing, repayable at call	1,963
Other interest bearing:	
At call	9,003
Term	12,242
Total deposits at amortised cost	23,208
Total deposits	27,605

Note (v) Related parties

It is anticipated that on or about the time of registration as a bank (for details refer to Local incorporation section, page 1), the Banking Group will include the following subsidiaries:

Name of Subsidiary	Principal Activity	Notes
Westpac NZ Operations Limited	Holding company	
The Warehouse Financial Services Limited	Financial services company	51 percent owned
Westpac (NZ) Investments Limited	Property owning and capital funding company	
Westpac Securities NZ Limited	Funding company	
The Home Mortgage Company Limited	Residential mortgage company	

The Home Mortgage Company Limited, The Warehouse Financial Services Limited and Westpac (NZ) Investments Limited are expected to be sold to the Bank by Westpac Holdings - NZ - Limited (a member of the Ultimate Parent Bank Group) at net asset value. All entities in the Banking Group will be 100% owned unless otherwise stated. All entities within the Banking Group have a balance date of 30 September and are incorporated in New Zealand.

It is also anticipated that Westpac Holdings - NZ - Limited will transfer (on or by 1 November 2006) its interest in the following New Zealand industry-based initiatives as listed below:

- Cards NZ Limited;
- Electronic Transaction Services Limited; and
- Interchange and Settlement Limited.

In the event of the transfer, the Banking Group will 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 Banking Group are other significant divisions of the Ultimate Parent Bank, based in London, Hong Kong, Sydney, New York, Tokyo and Singapore.

Note 22 Proforma vested assets and liabilities (continued)

Note (v) Related parties (continued)

Nature of transactions

Subject to the Bank's registration as a registered bank, the Bank may offer such facilities such as loan finance on normal commercial terms.

Subject to the Bank's registration as a registered bank (see Local incorporation section on page 1), the Bank may enter into the following transactions:

- (a) From the 1 November the sale of life insurance products by the Bank on behalf of other members of the Ultimate Parent Bank Group. The Bank may receive commission from these sales;
- (b) management fees may be paid by members of the Banking Group for certain operating costs incurred by the Bank;
- (c) rental income may be paid by the Bank to Westpac (NZ) Investments Limited;
- (d) a member of the Banking Group may provide funding to the Bank. Management fees will be paid by the Bank for these services;
- (e) the Banking Group may receive overnight funding from the London branch of Westpac Banking Corporation on an as needs basis;
- (f) the Bank may guarantee all payment obligations in respect to debt issues issued by the Banking Group; and
- (g) derivative transactions may be entered into with other members of the Banking Group and the Ultimate Parent Bank Group in the normal course of business. Management systems and operational controls will be 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.

In amounts due to related entities \$7,486 million represents the balance due on vesting day by the Bank for the assets and liabilities from New Zealand Branch of the Ultimate Parent Bank as designated in the Proposal Approval Order.

Note (vi) Commitments and contingencies

It is anticipated that on 1 November 2006, designated liabilities will vest in the Bank (see the Local incorporation section on page 1). Subject to the vesting taking effect, the Banking Group will have the following commitments and liabilities:

- (a) The Banking Group will be 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.
- (b) The Banking Group will have exposure to credit loss in the event of non-performance by the other party to such financial instruments as represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities will be able to be cancelled or revoked at any time at the Banking Group's option.
- (c) The Banking Group will use the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.
- (d) The Banking Group will take collateral where it is considered necessary to support, both on and off-balance sheet, financial instruments with credit risk. The Banking Group will evaluate 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 will be based on management's credit evaluation of the counterparty. The collateral that may be taken will vary but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.
- (e) The Banking Group will have other contingent liabilities in respect of actual and potential claims and proceedings, and obligations in respect of any action or enquiry that has been, or may be, made by the Bank's regulators and which has not been resolved by the time of vesting. An assessment of the Banking Group's likely loss in respect of these matters will be made on a case-by-case basis and provision made where appropriate.
- (f) It is anticipated that the Bank will have a contingent liability, which arises from it holding an investment in Cards NZ Limited (Cards NZ). Cards NZ, 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 Cards NZ to cover the non-performance of any of its members. It is not envisaged that any liability resulting in a material loss to the Bank will arise from these contingencies.
- (g) The Bank will guarantee certain obligations of Westpac Securities NZ Limited under funding programmes that provide funding to the Bank.
- (h) The Bank will lease the majority of the properties it occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require the Bank, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by the Bank upon vacation of all leased premises subject to these provisions is estimated to be \$14 million. The 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 (vii) Insurance business

The Bank will be engaged in insurance business on behalf of the Ultimate Parent Bank from 1 November 2006 onwards.

Auditors' Report

To the shareholders of Westpac New Zealand Limited

We have audited the financial statements on pages 2 to 37. The financial statements provide information about the past financial performance and cash flows of Westpac New Zealand Limited ('the Bank') and its subsidiaries (together with the Bank, 'the Banking Group') for the period ended 31 August 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 7 to 15.

Directors' Responsibilities

The Bank's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Bank and the Banking Group as at 31 August 2006 and their financial performance and cash flows for the period ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Bank and the Banking Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Auditors' Report

Westpac New Zealand Limited

We carry out other assignments on behalf of the Bank and the Banking Group in the area of taxation. In addition, certain partners and employees of our firm may deal with the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation on normal terms within the ordinary course of trading activities of the Bank, the Banking Group and the New Zealand Branch of Westpac Banking Corporation. We have no other interests in the Bank or the Banking Group.

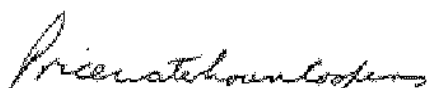
Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Bank as far as appears from our examination of those records; and
- (b) the financial statements on pages 2 to 37:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Bank and the Banking Group as at 31 August 2006 and their financial performance and cash flows for the period ended on that date.

Our audit was completed on 3 October 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland