

Westpac Banking Corporation - New Zealand Division **Disclosure Statement**

For the three months ended 31 December 2012



Index	1	General information and definitions
	1	General matters
	2	Credit ratings
	2	Disclosure statements of the Overseas Bank and the financial statements of the Overseas Bank and the Overseas Banking Group
	2	Guarantee arrangements
	2	Conditions of registration
	3	Directors' and the Chief Executive Officer, NZ Branch's statement
	4	Index to financial statements

General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('Reserve Bank Act') and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2012 ('Order').

In this Disclosure Statement, reference is made to five main reporting groups:

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation - New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2012 are set out in Note 26 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2012. Except as detailed in Note 10 to the financial statements included in this Disclosure Statement, there have been no other changes in the structure or composition of the NZ Banking Group since 30 September 2012;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Directors

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

Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD – Chairman

Gail Patricia Kelly, HigherDipEd, BA, MBA, HonDBus – Managing Director & Chief Executive Officer

John Simon Curtis AM, BA, LLB (Hons.) – Deputy Chairman

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

Gordon McKellar Cairns, MA (Hons.)

Ewen Graham Wolseley Crouch, BEc (Hons.), LLB

Robert George Elstone, BA (Hons.), MA (Econ.), MCom

Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD

Ann Darlene Pickard, BA, MA

Chief Executive Officer, NZ Branch

Karen Lee Ann Silk, B.Com

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2012:

- Peter Wilson retired from the Board at the conclusion of Westpac Banking Corporation's 2012 Annual General Meeting on 13 December 2012;
- Robert Elstone was appointed as Chairman of the Overseas Bank's Board Audit Committee effective 13 December 2012; and
- Ewen Crouch was appointed to the Board effective 1 February 2013.

Responsible person

All the Directors named above have authorised in writing Peter Graham Clare, Chief Executive, Westpac New Zealand to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the Reserve Bank Act.

Credit ratings

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

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

There have been no changes to any of the Overseas Bank's credit ratings or rating outlooks since 30 September 2012.

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

Disclosure statements of the Overseas Bank and the financial statements of the Overseas Bank and the Overseas Banking Group

Disclosure Statements of the Overseas Bank for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2012 and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

As at the date this Disclosure Statement was signed, no material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed.

Conditions of registration

The Overseas Bank's conditions of registration were amended in December 2012 to incorporate new capital adequacy requirements relating to the implementation of Basel III by the Australian Prudential Regulation Authority ('APRA'). The amendments take effect from 1 January 2013 and were:

- a new condition of registration 6(a) was included which requires the Common Equity Tier 1 capital of Westpac Banking Corporation to be not less than 4.5% of risk weighted exposures; and
- the minimum Tier 1 capital of Westpac Banking Corporation was increased from 4% to 6% of risk weighted exposures.

Directors' and the Chief Executive Officer, NZ Branch's statement

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

- (a) contains all information that is required by the Order; and
- (b) is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the three months ended 31 December 2012:

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

This Disclosure Statement has been signed on behalf of the Directors by Peter Graham Clare, Chief Executive, Westpac New Zealand, and by Karen Lee Ann Silk, as Chief Executive Officer, NZ Branch.



Peter Graham Clare



Karen Lee Ann Silk

Dated this the 28th day of February 2013

Index to financial statements

Page Contents

5	Consolidated income statement
6	Consolidated statement of comprehensive income
7	Consolidated statement of changes in equity
8	Consolidated balance sheet
9	Consolidated statement of cash flows
10	Notes to the financial statements
10	Note 1 Statement of accounting policies
11	Note 2 Non-interest income
11	Note 3 Impairment charges on loans
12	Note 4 Trading securities
12	Note 5 Loans
12	Note 6 Credit quality, impaired assets and provisions for impairment charges on loans
13	Note 7 Deposits
13	Note 8 Trading liabilities
13	Note 9 Debt issues
14	Note 10 Related entities
14	Note 11 Commitments and contingent liabilities
14	Note 12 Segment information
16	Note 13 Insurance business
16	Note 14 Risk management
16	14.1 Credit risk
16	14.2 Market risk
17	14.3 Liquidity risk
17	Note 15 Concentration of credit exposures to individual counterparties
17	Note 16 Overseas Bank and Overseas Banking Group capital adequacy
18	Note 17 Other information on the Overseas Banking Group

Consolidated income statement for the three months ended 31 December 2012

\$ millions	Note	NZ Banking Group		
		Three Months Ended 31-Dec-12 Unaudited	Three Months Ended 31-Dec-11 Unaudited	Year Ended 30-Sep-12 Audited
Interest income		967	1,000	3,965
Interest expense		(575)	(631)	(2,440)
Net interest income		392	369	1,525
Non-interest income	2	147	145	582
Net operating income		539	514	2,107
Operating expenses		(234)	(211)	(872)
Impairment charges on loans	3	(35)	(21)	(184)
Operating profit		270	282	1,051
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		270	282	1,052
Income tax expense on operating profit		(73)	(76)	(293)
Profit after income tax expense		197	206	759
Profit after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		196	205	756
Non-controlling interests		1	1	3
		197	206	759

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

Consolidated statement of comprehensive income for the three months ended 31 December 2012

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-12 Unaudited	Three Months Ended 31-Dec-11 Unaudited	Year Ended 30-Sep-12 Audited
Profit after income tax expense	197	206	759
Other comprehensive income which may be reclassified to the income statement:			
Available-for-sale securities:			
Net unrealised (losses)/gains from changes in fair value of available-for-sale securities	(2)	43	66
Exchange differences	1	(1)	(6)
Income tax effect	3	(10)	(11)
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	6	51	56
Income tax effect	(2)	(14)	(16)
Total other comprehensive income which may be reclassified to the income statement	6	69	89
Other comprehensive expense which will not be reclassified to the income statement:			
Actuarial losses on employee defined benefit superannuation schemes	-	-	(25)
Income tax effect	-	-	7
Total other comprehensive expense which will not be reclassified to the income statement	-	-	(18)
Total other comprehensive income, net of tax	6	69	71
Total comprehensive income	203	275	830
Total comprehensive income attributable to:			
Head office account and owners of NZ Banking Group	202	274	827
Non-controlling interests	1	1	3
	203	275	830

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

Consolidated statement of changes in equity for the three months ended 31 December 2012

NZ Banking Group											
\$ millions	Head Office Account		Convertible Debentures	NZ Banking Group Equity				Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	Total Equity
	Branch Capital	Retained Profits		Share Capital	Retained Profits	Available-for-sale Securities Reserve					
As at 1 October 2011	1,300	89	1,284	139	1,984	31	(74)	4,753	8	4,761	
Three months ended 31 December 2011											
Profit after income tax expense	-	59	-	-	146	-	-	205	1	206	
Net gains from changes in fair value	-	-	-	-	-	43	51	94	-	94	
Exchange differences	-	-	-	-	-	(1)	-	(1)	-	(1)	
Income tax effect	-	-	-	-	-	(10)	(14)	(24)	-	(24)	
Total comprehensive income for the three months ended 31 December 2011	-	59	-	-	146	32	37	274	1	275	
As at 31 December 2011 (Unaudited)	1,300	148	1,284	139	2,130	63	(37)	5,027	9	5,036	
Year ended 30 September 2012											
Profit after income tax expense	-	196	-	-	560	-	-	756	3	759	
Net gains from changes in fair value	-	-	-	-	-	66	56	122	-	122	
Exchange differences	-	-	-	-	-	(6)	-	(6)	-	(6)	
Income tax effect	-	-	-	-	-	(11)	(16)	(27)	-	(27)	
Actuarial losses on employee defined benefit superannuation schemes	-	-	-	-	(25)	-	-	(25)	-	(25)	
Income tax effect	-	-	-	-	7	-	-	7	-	7	
Total comprehensive income for the year ended 30 September 2012	-	196	-	-	542	49	40	827	3	830	
Transactions with owners:											
Dividends paid on convertible debentures (net of tax)	-	(72)	-	-	-	-	-	(72)	-	(72)	
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(4)	(4)	
As at 30 September 2012 (Audited)	1,300	213	1,284	139	2,526	80	(34)	5,508	7	5,515	
Three months ended 31 December 2012											
Profit after income tax expense	-	53	-	-	143	-	-	196	1	197	
Net gains from changes in fair value	-	-	-	-	-	(2)	6	4	-	4	
Exchange differences	-	-	-	-	-	1	-	1	-	1	
Income tax effect	-	-	-	-	-	3	(2)	1	-	1	
Total comprehensive income for the three months ended 31 December 2012	-	53	-	-	143	2	4	202	1	203	
As at 31 December 2012 (Unaudited)	1,300	266	1,284	139	2,669	82	(30)	5,710	8	5,718	

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

Consolidated balance sheet as at 31 December 2012

\$ millions	Note	NZ Banking Group		
		31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Assets				
Cash and balances with central banks		2,235	1,626	1,714
Due from other financial institutions		424	144	322
Derivative financial instruments		4,965	5,672	5,506
Trading securities	4	4,672	5,593	4,028
Available-for-sale securities		2,826	2,513	2,694
Loans	5,6	59,652	58,070	59,892
Life insurance assets		252	197	237
Due from related entities		1,584	1,345	2,006
Investment in associate		48	48	48
Goodwill and other intangible assets		663	620	652
Property, plant and equipment		167	157	162
Deferred tax assets		216	216	209
Other assets		314	385	384
Total assets		78,018	76,586	77,854
Liabilities				
Due to other financial institutions		741	407	214
Deposits	7	45,554	41,156	43,390
Derivative financial instruments		4,953	5,475	5,841
Trading liabilities	8	328	670	518
Debt issues	9	12,856	13,560	12,914
Current tax liabilities		44	69	49
Provisions		75	71	96
Other liabilities		639	693	721
Total liabilities excluding related entities liabilities		65,190	62,101	63,743
Subordinated debentures		718	774	712
Due to related entities		6,392	8,675	7,884
Total related entities liabilities		7,110	9,449	8,596
Total liabilities		72,300	71,550	72,339
Net assets		5,718	5,036	5,515
Equity				
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		266	148	213
Total head office account		1,566	1,448	1,513
Convertible debentures		1,284	1,284	1,284
NZ Banking Group equity				
Ordinary share capital		139	139	139
Retained profits		2,669	2,130	2,526
Available-for-sale securities reserve		82	63	80
Cash flow hedge reserve		(30)	(37)	(34)
Total equity attributable to owners of the NZ Banking Group		2,860	2,295	2,711
Non-controlling interests		8	9	7
Total equity		5,718	5,036	5,515
Interest earning and discount bearing assets		69,549	68,325	69,024
Interest and discount bearing liabilities		62,229	60,939	60,877

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

Consolidated statement of cash flows for the three months ended 31 December 2012

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-12 Unaudited	Three Months Ended 31-Dec-11 Unaudited	Year Ended 30-Sep-12 Audited
Cash flows from operating activities			
Interest income received	974	992	3,955
Interest expense paid	(539)	(616)	(2,436)
Non-interest income received	159	138	562
Net (increase)/decrease in trading securities	(672)	23	1,643
Net decrease in trading liabilities	(190)	(616)	(768)
Net movement in derivative financial instruments	(341)	466	1,003
Operating expenses paid	(280)	(227)	(824)
Income tax paid	(79)	(33)	(240)
Net cash (used in)/provided by operating activities	(968)	127	2,895
Cash flows from investing activities			
Purchase of available-for-sale securities	(133)	(953)	(1,179)
Proceeds from maturities of available-for-sale securities	-	-	63
Net loans repaid by/(advanced to) customers	205	23	(1,962)
Net increase in life insurance assets	(15)	(11)	(51)
Net decrease in due from related entities	422	927	266
Purchase of capitalised computer software	(21)	(12)	(73)
Purchase of property, plant and equipment	(12)	(10)	(36)
Net cash provided by/(used in) investing activities	446	(36)	(2,972)
Cash flows from financing activities			
Net increase in deposits	2,164	1,581	3,815
Net decrease in debt issues	(58)	(4,070)	(4,716)
Net (decrease)/increase in due to related entities	(1,494)	1,980	1,185
Net increase/(decrease) in subordinated debentures	6	(11)	(73)
Dividends paid on convertible debentures	-	-	(100)
Dividends paid to minority shareholders	-	-	(4)
Net cash provided by/(used in) financing activities	618	(520)	107
Net increase/(decrease) in cash and cash equivalents	96	(429)	30
Cash and cash equivalents at beginning of the period/year	1,822	1,792	1,792
Cash and cash equivalents at end of the period/year	1,918	1,363	1,822
Cash and cash equivalents comprise:			
Cash and balances with central banks	2,235	1,626	1,714
Due (to)/from other financial institutions (net)	(317)	(263)	108
Cash and cash equivalents at end of the period/year	1,918	1,363	1,822
Reconciliation of profit after income tax expense to net cash provided by operating activities			
Profit after income tax expense	197	206	759
<i>Adjustments:</i>			
Impairment charges on loans	35	21	184
Computer software amortisation costs	10	9	38
Depreciation on property, plant and equipment	7	7	28
Share-based payments	2	2	7
Movement in other assets	10	(65)	(108)
Movement in other liabilities	(12)	(11)	(10)
Movement in current and deferred tax	(12)	61	55
Tax on cash flow hedge reserve	(2)	(14)	(16)
Tax on available-for-sale securities reserve	3	(10)	(11)
Tax on convertible debentures dividends	-	-	28
Movement in trading securities	(675)	71	1,706
Movement in trading liabilities	(190)	(616)	(768)
Movement in derivative financial instruments	(341)	466	1,003
Net cash (used in)/provided by operating activities	(968)	127	2,895

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

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

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

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations).

These consolidated financial statements have been prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2012 ('**Order**') and the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**').

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2012.

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

As a result of the new and revised accounting standard which became operative for the annual reporting period commencing 1 October 2012, the NZ Banking Group adopted *Presentation of Items of Other Comprehensive Income* (Amendments to NZ IAS 1). Under the amended standard, the format of other comprehensive income has changed to separate items that may be recycled to the income statement from items that will not be recycled. Adoption of this revised accounting standard has not resulted in any material change to the NZ Banking Group's reported result or financial position.

These financial statements were authorised for issue by the Board on 28 February 2013. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2012, except as amended for the changes required due to the adoption of the new and revised accounting standard as explained in the 'Statutory base' section.

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

Basis of aggregation

The NZ Banking Group as at 31 December 2012 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, Hastings Forestry Investments Limited, and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, Westpac New Zealand Group Limited and their controlled entities. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

The NZ Banking Group may invest in or establish special purpose entities to enable it to undertake specific types of transactions. Where the NZ Banking Group controls such entities, they are consolidated into the NZ Banking Group's financial results. All transactions and balances between entities within the NZ Banking Group have been eliminated.

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

Notes to the financial statements

Note 2 Non-interest income

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-12 Unaudited	Three Months Ended 31-Dec-11 Unaudited	Year Ended 30-Sep-12 Audited
Fees and commissions			
Transaction fees and commissions	62	56	244
Lending fees (loan and risk)	16	16	61
Insurance commissions received	4	4	15
Other non-risk fee income	-	8	1
Total fees and commissions	82	84	321
Wealth management revenue			
Fees from trust and other fiduciary activities	41	35	153
Net life insurance income and change in policy liabilities	(13)	(10)	(32)
Total wealth management revenue	28	25	121
Trading income			
Foreign exchange trading	21	24	85
Interest rate trading	7	6	31
Total trading income	28	30	116
Net ineffectiveness on qualifying hedges	(1)	-	1
Other non-interest income			
Net gains on derivatives held for risk management purposes	-	5	6
Dividend income	-	-	2
Rental income	-	-	1
Other	10	1	14
Total other non-interest income	10	6	23
Total non-interest income	147	145	582

Note 3 Impairment charges on loans

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Three months ended 31 December 2012 (Unaudited)				
Collectively assessed provisions	-	2	8	10
Individually assessed provisions	9	-	3	12
Bad debts written-off directly to the income statement	1	9	9	19
Interest adjustments	(1)	(1)	(4)	(6)
Total impairment charges on loans	9	10	16	35
Three months ended 31 December 2011 (Unaudited)				
Collectively assessed provisions	2	3	(14)	(9)
Individually assessed provisions	8	-	15	23
Bad debts written-off directly to the income statement	(1)	11	7	17
Interest adjustments	(1)	(2)	(7)	(10)
Total impairment charges on loans	8	12	1	21
Year ended 30 September 2012 (Audited)				
Collectively assessed provisions	(5)	(6)	(60)	(71)
Individually assessed provisions	23	-	190	213
Bad debts written-off directly to the income statement	2	43	29	74
Interest adjustments	(4)	(10)	(18)	(32)
Total impairment charges on loans	16	27	141	184

Notes to the financial statements

Note 4 Trading securities

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Trading securities			
NZ corporate securities:			
Certificates of deposit	2,963	2,076	2,172
Corporate bonds	505	444	484
Mortgage-backed securities	4	6	5
NZ Government securities	818	1,978	819
Offshore securities	4	26	4
Securities purchased under agreement to resell	378	1,063	544
Total trading securities	4,672	5,593	4,028

As at 31 December 2012, the NZ Banking Group had \$16 million of trading securities (31 December 2011: \$45 million, 30 September 2012: \$12 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 5 Loans

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Overdrafts	1,180	1,144	1,460
Credit card outstandings	1,380	1,332	1,311
Money market loans	1,062	918	1,165
Term loans:			
Housing	35,964	35,061	35,963
Non-housing	19,826	19,300	19,798
Other	855	984	802
Total gross loans	60,267	58,739	60,499
Provisions for impairment charges on loans	(615)	(669)	(607)
Total net loans	59,652	58,070	59,892

As at 31 December 2012, \$2.9 billion of housing loans are used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand's Global Covered Bond Programme ('CB Programme') (31 December 2011: \$2.4 billion, 30 September 2012: \$3.1 billion). These housing loans were not derecognised from Westpac New Zealand's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2012. As at 31 December 2012, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2.0 billion (31 December 2011: \$1.7 billion, 30 September 2012: \$2.0 billion).

Note 6 Credit quality, impaired assets and provisions for impairment charges on loans

\$ millions	NZ Banking Group			
	Residential Mortgages	31-Dec-12 (Unaudited) Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Total neither past due nor impaired	34,622	1,728	21,348	57,698
Past due assets:				
Less than 90 days past due	1,159	137	330	1,626
At least 90 days past due	69	16	79	164
Total past due assets	1,228	153	409	1,790
Individually impaired assets	114	-	665	779
Total gross loans	35,964	1,881	22,422	60,267
Individually assessed provisions	37	-	242	279
Collectively assessed provisions	61	65	250	376
Total provisions for impairment charges on loans and credit commitments	98	65	492	655
Provision for credit commitments	-	-	(40)	(40)
Total provisions for impairment charges on loans	98	65	452	615
Total net loans	35,866	1,816	21,970	59,652

Note 7 Deposits

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Deposits at fair value			
Certificates of deposit	1,591	1,319	1,423
Total deposits at fair value	1,591	1,319	1,423
Deposits at amortised cost			
Non-interest bearing, repayable at call	3,335	3,066	2,969
Other interest bearing:			
At call	16,858	15,636	15,931
Term	23,770	21,135	23,067
Total deposits at amortised cost	43,963	39,837	41,967
Total deposits	45,554	41,156	43,390

The NZ Branch held no retail deposits from individuals as at 31 December 2012 (31 December 2011: nil, 30 September 2012: nil).

Note 8 Trading liabilities

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Held for trading			
Securities sold short	312	625	506
Securities sold under agreements to repurchase	16	45	12
Total trading liabilities	328	670	518

Note 9 Debt issues

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Short-term debt			
Commercial paper	4,054	3,640	4,033
Total short-term debt	4,054	3,640	4,033
Long-term debt			
Non-domestic medium-term notes	6,124	8,625	6,207
Domestic medium-term notes	2,678	1,295	2,674
Total long-term debt	8,802	9,920	8,881
Total debt issues	12,856	13,560	12,914
Debt issues at amortised cost	8,771	9,426	8,851
Debt issues at fair value	4,085	4,134	4,063
Total debt issues	12,856	13,560	12,914
Movement in debt issues			
Balance at beginning of the period/year	12,914	17,630	17,630
Issuances during the period/year	1,343	2,283	12,589
Repayments during the period/year	(1,643)	(6,127)	(16,196)
Effect of foreign exchange movements during the period/year	235	(270)	(1,188)
Effect of fair value movements during the period/year	7	44	79
Balance at end of the period/year	12,856	13,560	12,914

As at 31 December 2012, the NZ Banking Group had New Zealand Government guaranteed debt of \$1,985 million on issue (31 December 2011: \$4,034 million, 30 September 2012: \$1,970 million). For further information on New Zealand Government guaranteed debt refer to Guarantee arrangements in Westpac New Zealand's Disclosure Statement for the three months ended 31 December 2012.

Notes to the financial statements

Note 10 Related entities

Westpac NZ Securitisation No.2 Limited ('WNZSL 2') was incorporated on 2 November 2012. WNZSL 2 is a wholly owned subsidiary of Westpac NZ Securitisation Holdings Limited.

There have been no other changes to the structure or composition of the NZ Banking Group since 30 September 2012. Controlled entities of the NZ Banking Group as at 30 September 2012 are set out in Note 26 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2012.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 December 2012, amounted to \$5,818 million (31 December 2011: \$6,267 million, 30 September 2012: \$6,372 million).

Note 11 Commitments and contingent liabilities

\$ millions	NZ Banking Group		
	31-Dec-12 Unaudited	31-Dec-11 Unaudited	30-Sep-12 Audited
Commitments for capital expenditure			
Due within one year	1	1	4
Other expenditure commitments:			
One year or less	106	86	95
Between one and five years	281	307	293
Over five years	2	14	-
Total other expenditure commitments	389	407	388
Lease commitments (all leases are classified as operating leases)			
Premises and sites	258	209	219
Motor vehicles	10	7	8
Total lease commitments	268	216	227
Lease commitments are due as follows:			
One year or less	52	44	44
Between one and five years	135	104	117
Over five years	81	68	66
Total lease commitments	268	216	227
Other contingent liabilities and commitments			
Direct credit substitutes	331	331	335
Loan commitments with certain drawdown	176	145	177
Transaction related contingent items	917	691	796
Short-term, self liquidating trade related contingent liabilities	411	503	397
Other commitments to provide financial services	19,223	16,839	19,118
Total other contingent liabilities and commitments	21,058	18,509	20,823

Note 12 Segment information

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

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

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

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

- Retail Banking provides financial services for individuals;
- Wealth provides financial services for high net worth individuals, funds management and insurance distribution;
- Business Banking provides financial services for small to medium sized enterprise customers, corporates and agricultural businesses; and
- Institutional Banking provides a broad range of financial services to large corporate, institutional and government customers and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking and Institutional Banking are separate reportable segments.

Notes to the financial statements

Note 12 Segment information (continued)

Reconciling items primarily represent:

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

Net interest income and non-interest income have been included in the following table to align with the information provided to the 'chief operating decision maker'. Comparative information for net operating income from external customers and net internal operating income has been changed to ensure consistent presentation with the current reporting period. Additionally, profit before income tax expense from domestic transactional banking deposits of certain customers and the associated deposits has been reclassified from the Business Banking segment to the Institutional Banking segment. The revised presentation has no impact on total profit before income tax expense for the three months ended 31 December 2011 and the year ended 30 September 2012.

\$ millions	NZ Banking Group				Total
	Consumer Banking	Business Banking	Institutional Banking	Reconciling Items ¹	
Three months ended 31 December 2012 (Unaudited)					
Net interest income	198	120	47	27	392
Non-interest income	73	25	41	8	147
Net operating income	271	145	88	35	539
Net operating income from external customers	342	256	86	(145)	539
Net internal operating (expense)/income	(71)	(111)	2	180	-
Net operating income	271	145	88	35	539
Operating expenses	(51)	(20)	(15)	(148)	(234)
Impairment charges on loans	(15)	(10)	(10)	-	(35)
Profit before income tax expense	205	115	63	(113)	270
Total gross loans	31,453	22,064	6,955	(205)	60,267
Total deposits	25,367	11,124	7,472	1,591	45,554
Three months ended 31 December 2011 (Unaudited)					
Net interest income	195	119	42	13	369
Non-interest income	68	23	52	2	145
Net operating income	263	142	94	15	514
Net operating income from external customers	375	267	101	(229)	514
Net internal operating (expense)/income	(112)	(125)	(7)	244	-
Net operating income	263	142	94	15	514
Operating expenses	(51)	(18)	(14)	(128)	(211)
Impairment (charges)/recoveries on loans	(18)	(18)	17	(2)	(21)
Profit before income tax expense	194	106	97	(115)	282
Total gross loans	30,673	21,350	6,973	(257)	58,739
Total deposits	23,522	10,057	6,258	1,319	41,156
Year ended 30 September 2012 (Unaudited)					
Net interest income	793	488	181	63	1,525
Non-interest income	292	94	180	16	582
Net operating income	1,085	582	361	79	2,107
Net operating income from external customers	1,468	1,063	380	(804)	2,107
Net internal operating (expense)/income	(383)	(481)	(19)	883	-
Net operating income	1,085	582	361	79	2,107
Operating expenses	(198)	(73)	(56)	(545)	(872)
Impairment charges on loans	(38)	(144)	(6)	4	(184)
Share of profit of associate accounted for using equity method	-	-	-	1	1
Profit before income tax expense	849	365	299	(461)	1,052
Total gross loans	31,383	22,129	7,209	(222)	60,499
Total deposits	24,744	10,809	6,414	1,423	43,390

1 Included in the reconciling items for total operating expenses is \$153 million (31 December 2011: \$138 million; 30 September 2012: \$548 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Notes to the financial statements

Note 13 Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited ('**Westpac Life**'), calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

\$ millions	NZ Banking Group 31-Dec-12 Unaudited
Total assets	206
As a percentage of total assets of the NZ Banking Group	0.26%

Westpac Life is carrying on insurance business in New Zealand and is therefore subject to the requirements set out in the Insurance (Prudential Supervision) Act 2010, including licensing and supervision by the Reserve Bank of New Zealand ('**Reserve Bank**'). Westpac Life was granted a provisional licence by the Reserve Bank on 22 February 2012, subject to standard conditions including a requirement to establish a statutory fund which effectively separates life insurance assets and policy liabilities from any other business carried out by Westpac Life. The statutory fund was established by Westpac Life effective from 1 October 2012.

Note 14 Risk management

14.1 Credit risk

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2012 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ Banking Group utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure as required under Clause 1 of Schedule 9 to the Order. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range (\$ millions)	NZ Banking Group 31-Dec-12 (Unaudited)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	27,346	5,587	2,958	35,891
Undrawn commitments and other off-balance sheet exposures	6,134	412	216	6,762
Value of exposures	33,480	5,999	3,174	42,653

14.2 Market risk

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date.

\$ millions	NZ Banking Group 31-Dec-12 (Unaudited)	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	2,316	185
Foreign currency risk	89	7
Equity risk	80	6

Note 14 Risk management (continued)

14.3 Liquidity risk

Liquid assets

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

\$ millions	NZ Banking Group 31-Dec-12 Unaudited
Cash and balances with central banks	2,002
Due from other financial institutions	174
Supranational securities	424
NZ Government securities	2,496
NZ public securities	463
NZ corporate securities	3,302
Residential mortgage-backed securities	3,992
Total liquid assets	12,853

Note 15 Concentration of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2012 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2012 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2012 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2012 was nil.

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that amount by the Overseas Banking Group's equity as at 30 September 2012.

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

Note 16 Overseas Bank and Overseas Banking Group capital adequacy

%	31-Dec-12 Unaudited	31-Dec-11 Unaudited
Overseas Banking Group¹		
Tier One Capital ratio	10.7	9.8
Total Capital ratio	12.1	11.0
Overseas Bank (Extended Licensed Entity)¹		
Tier One Capital ratio	10.5	9.7
Total Capital ratio	12.3	11.3

1 The capital ratios represent information mandated by Australian Prudential Regulation Authority ('APRA').

Notes to the financial statements

Note 16 Overseas Bank and Overseas Banking Group capital adequacy (continued)

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

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 31 December 2012. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

Since 2012 the Overseas Banking Group's capital ratios have been measured using the new Basel 2.5 standards, which became effective from 1 January 2012. These standards principally involved changes in risk-weighted assets applied to market risk and to securitisation.

Note 17 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2012.

	30-Sep-12 Audited
Profitability	
Net profit after tax for the year ended 30 September 2012 (A\$ millions)	6,036
Net profit after tax (for the year ended 30 September 2012) as a percentage of average total assets	0.9%
Total assets and equity	
Total assets (A\$ millions)	674,965
Percentage change in total assets for the year ended 30 September 2012	0.7%
Total equity (A\$ millions)	44,249
Asset quality	
Total individually impaired assets ^{1, 2} (A\$ millions)	3,955
As a percentage of total assets	0.6%
Total individual credit impairment allowance (A\$ millions)	1,470
As a percentage of total individually impaired assets	37.2%
Total collective credit impairment allowance (A\$ millions)	2,771

¹ Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense.

² Non-financial assets have not been acquired through the enforcement of security.

