

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

For the three months ended 31 December 2013



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## General information and definitions

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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) 2013 ('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 2013 are set out in Note 26 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2013. 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 2013;
- 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

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### 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 with Distinction, HonDBus – Managing Director & Chief Executive Officer

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

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

**Ewen Graham Wolseley Crouch** AM, BEc (Hons.), LLB, FAICD

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

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

**Peter Ralph Marriott**, BEc (Hons.), FCA

**Ann Darlene Pickard**, BA, MA

Since 30 September 2013, Gordon Cairns retired as a Director of the Overseas Bank on 13 December 2013 and John Curtis has announced that he will retire as a Director of the Overseas Bank on 25 April 2014.

### Chief Executive Officer, NZ Branch

**Karen Lee Ann Silk**, B.Com

### 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

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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

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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

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Disclosure Statements of the Overseas Bank for the last five years are available, free of charge, at the internet address [www.westpac.co.nz](http://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 2013 and can be accessed at the internet address [www.westpac.com.au](http://www.westpac.com.au).

## Guarantee arrangements

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

## Pending proceedings or arbitration

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

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. To date proceedings have been filed against two banks and the plaintiff group has announced their intention to file proceedings against the remaining three banks (including Westpac New Zealand) on 28 February 2014. At this stage the impact of any such potential proceeding cannot be determined with any certainty.

On 12 December 2013, the Commerce Commission notified the Overseas Bank and Westpac New Zealand that it intends filing proceedings against them under the Fair Trading Act 1986 in relation to the marketing and sale of interest rate swaps to rural customers. The Commerce Commission has indicated that these proceedings are likely to be filed in March 2014. At this stage the impact of this notification cannot be determined with any certainty.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2013 Annual Financial Report.

## Conditions of registration

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The conditions of registration imposed on Westpac Banking Corporation in New Zealand were amended on 27 September 2013. The amendments came into effect on 1 October 2013. The amendments added new conditions restricting new residential mortgage lending with loan-to-valuation ratios over 80% to no more than 10% of the total of qualifying new residential mortgage lending amounts arising in the loan-to-valuation measurement period.

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

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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 2013:

- (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 and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, 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. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group.

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 25<sup>th</sup> day of February 2014

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## Consolidated income statement for the three months ended 31 December 2013

\$ millions	Note	NZ Banking Group		
		Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited	Year Ended 30-Sep-13 Audited
Interest income		964	967	3,801
Interest expense		(584)	(575)	(2,223)
<b>Net interest income</b>		<b>380</b>	392	1,578
Non-interest income	2	202	147	585
<b>Net operating income</b>		<b>582</b>	539	2,163
Operating expenses		(222)	(234)	(877)
Impairment charges on loans	3	(13)	(35)	(105)
<b>Operating profit</b>		<b>347</b>	270	1,181
Share of profit of associate accounted for using the equity method		-	-	1
<b>Profit before income tax expense</b>		<b>347</b>	270	1,182
Income tax expense		(81)	(73)	(327)
<b>Profit after income tax expense</b>		<b>266</b>	197	855
<b>Profit after income tax expense attributable to:</b>				
Head office account and owners of the NZ Banking Group		265	196	852
Non-controlling interests		1	1	3
		<b>266</b>	197	855

The accompanying notes (numbered 1 to 19) 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 2013

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited	Year Ended 30-Sep-13 Audited
<b>Profit after income tax expense</b>	<b>266</b>	197	855
<b>Other comprehensive income which may be reclassified to the income statement:</b>			
Available-for-sale securities:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	<b>36</b>	(2)	23
Transferred to the income statement (refer to Note 2)	<b>(48)</b>	-	-
Exchange differences	<b>1</b>	1	1
Income tax effect	<b>(6)</b>	3	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	<b>34</b>	(10)	34
Transferred to the income statement	<b>(1)</b>	15	30
Income tax effect	<b>(9)</b>	(1)	(18)
<b>Total other comprehensive income which may be reclassified to the income statement</b>	<b>7</b>	6	72
<b>Other comprehensive income which will not be reclassified to the income statement:</b>			
Actuarial gains on employee defined benefit obligations	-	-	39
Income tax effect	-	-	(11)
<b>Total other comprehensive income which will not be reclassified to the income statement</b>	<b>-</b>	-	28
<b>Total other comprehensive income, net of tax</b>	<b>7</b>	6	100
<b>Total comprehensive income</b>	<b>273</b>	203	955
<b>Total comprehensive income attributable to:</b>			
Head office account and owners of NZ Banking Group	<b>272</b>	202	952
Non-controlling interests	<b>1</b>	1	3
	<b>273</b>	203	955

The accompanying notes (numbered 1 to 19) 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 2013

NZ Banking Group										
\$ millions	Head Office Account		Convertible Debentures	NZ Banking Group Equity				Total before Non-controlling Interests	Non-controlling Interests	Total Equity
	Branch Capital	Retained Profits		Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve			
<b>As at 1 October 2012 as previously reported (Audited)</b>	1,300	213	1,284	139	2,526	80	(34)	5,508	7	5,515
Adjustment due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	16	-	-	16	-	16
<b>As at 1 October 2012 (Restated)</b>	1,300	213	1,284	139	2,542	80	(34)	5,524	7	5,531
<b>Three months ended 31 December 2012 (Unaudited)</b>										
Profit after income tax expense	-	53	-	-	143	-	-	196	1	197
Net losses from changes in fair value	-	-	-	-	-	(2)	(10)	(12)	-	(12)
Income tax effect	-	-	-	-	-	3	3	6	-	6
Exchange differences	-	-	-	-	-	1	-	1	-	1
Transferred to income statement	-	-	-	-	-	-	15	15	-	15
Income tax effect	-	-	-	-	-	-	(4)	(4)	-	(4)
<b>Total comprehensive income for the three months ended 31 December 2012</b>	-	53	-	-	143	2	4	202	1	203
<b>As at 31 December 2012 (Unaudited)</b>	1,300	266	1,284	139	2,685	82	(30)	5,726	8	5,734
<b>Year ended 30 September 2013 (Audited)</b>										
Profit after income tax expense	-	201	-	-	651	-	-	852	3	855
Net gains from changes in fair value	-	-	-	-	-	23	34	57	-	57
Income tax effect	-	-	-	-	-	2	(10)	(8)	-	(8)
Exchange differences	-	-	-	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	-	-	30	30	-	30
Income tax effect	-	-	-	-	-	-	(8)	(8)	-	(8)
Actuarial gains on employee defined benefit obligations	-	-	-	-	39	-	-	39	-	39
Income tax effect	-	-	-	-	(11)	-	-	(11)	-	(11)
<b>Total comprehensive income for the year ended 30 September 2013</b>	-	201	-	-	679	26	46	952	3	955
Transactions with owners:										
Redemption of convertible debentures	-	(9)	(1,284)	-	-	-	-	(1,293)	-	(1,293)
Dividends paid on convertible debentures (net of tax)	-	(66)	-	-	-	-	-	(66)	-	(66)
Dividends paid on ordinary shares	-	-	-	-	(323)	-	-	(323)	(4)	(327)
<b>As at 30 September 2013 (Audited)</b>	1,300	339	-	139	2,898	106	12	4,794	6	4,800
Adjustment due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	(3)	-	-	(3)	-	(3)
<b>As at 30 September 2013 (Restated)</b>	1,300	339	-	139	2,895	106	12	4,791	6	4,797
<b>Three months ended 31 December 2013 (Unaudited)</b>										
Profit after income tax expense	-	32	-	-	233	-	-	265	1	266
Net gains from changes in fair value	-	-	-	-	-	36	34	70	-	70
Income tax effect	-	-	-	-	-	(6)	(9)	(15)	-	(15)
Exchange differences	-	-	-	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	-	(48)	(1)	(49)	-	(49)
Income tax effect	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the three months ended 31 December 2013</b>	-	32	-	-	233	(17)	24	272	1	273
Transactions with owners:										
Aggregation of new entities (refer to Note 10)	-	-	-	4	-	-	-	4	-	4
<b>As at 31 December 2013 (Unaudited)</b>	1,300	371	-	143	3,128	89	36	5,067	7	5,074

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

## Consolidated balance sheet as at 31 December 2013

\$ millions	Note	NZ Banking Group		
		31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
<b>Assets</b>				
Cash and balances with central banks		1,546	2,235	1,848
Due from other financial institutions		367	424	173
Derivative financial instruments		3,361	4,965	3,661
Trading securities	4	4,121	4,672	4,313
Available-for-sale securities		2,724	2,826	2,715
Loans	5, 6	62,839	59,652	62,037
Life insurance assets		302	252	289
Due from related entities		899	1,584	1,036
Investment in associate		48	48	48
Goodwill and other intangible assets		724	663	714
Property, plant and equipment		165	167	169
Deferred tax assets		134	210	154
Other assets		301	314	397
<b>Total assets</b>		<b>77,531</b>	<b>78,012</b>	<b>77,554</b>
<b>Liabilities</b>				
Due to other financial institutions		423	741	335
Deposits	7	48,901	45,554	48,182
Derivative financial instruments		3,084	4,953	3,786
Trading liabilities	8	517	328	498
Debt issues	9	13,042	12,856	11,645
Current tax liabilities		28	44	24
Provisions		72	75	87
Other liabilities		889	617	671
<b>Total liabilities excluding related entities liabilities</b>		<b>66,956</b>	<b>65,168</b>	<b>65,228</b>
Subordinated debentures		693	718	693
Due to related entities		4,808	6,392	6,836
<b>Total related entities liabilities</b>		<b>5,501</b>	<b>7,110</b>	<b>7,529</b>
<b>Total liabilities</b>		<b>72,457</b>	<b>72,278</b>	<b>72,757</b>
<b>Net assets</b>		<b>5,074</b>	<b>5,734</b>	<b>4,797</b>
<b>Equity</b>				
<b>Head office account</b>				
Branch capital		1,300	1,300	1,300
Retained profits		371	266	339
<b>Total head office account</b>		<b>1,671</b>	<b>1,566</b>	<b>1,639</b>
Convertible debentures		-	1,284	-
<b>NZ Banking Group equity</b>				
Ordinary share capital		143	139	139
Retained profits		3,128	2,685	2,895
Available-for-sale securities reserve		89	82	106
Cash flow hedge reserve		36	(30)	12
<b>Total equity attributable to owners of the NZ Banking Group</b>		<b>3,396</b>	<b>2,876</b>	<b>3,152</b>
Non-controlling interests		7	8	6
<b>Total equity</b>		<b>5,074</b>	<b>5,734</b>	<b>4,797</b>
Interest earning and discount bearing assets		71,781	69,549	71,369
Interest and discount bearing liabilities		63,875	62,229	63,671

The accompanying notes (numbered 1 to 19) 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 2013

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited <sup>1</sup>	Year Ended 30-Sep-13 Audited
<b>Cash flows from operating activities</b>			
Interest income received	967	974	3,801
Interest expense paid	(526)	(539)	(2,225)
Non-interest income received	145	159	646
Net loans (advanced to)/repaid by customers	(835)	205	(2,250)
Net increase in deposits	719	2,164	4,792
Net decrease/(increase) in trading securities	556	(672)	(363)
Net increase/(decrease) in trading liabilities	19	(190)	(20)
Net movement in derivative financial instruments	(369)	(341)	(146)
Operating expenses paid	(263)	(280)	(800)
Income tax paid	(71)	(79)	(305)
<b>Net cash provided by operating activities</b>	<b>342</b>	<b>1,401</b>	<b>3,130</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale securities	(2)	(133)	(23)
Proceeds from maturities of available-for-sale securities	-	-	26
Net increase in life insurance assets	(13)	(15)	(52)
Net decrease in due from related entities	139	422	970
Purchase of capitalised computer software	(21)	(21)	(98)
Purchase of property, plant and equipment	(3)	(12)	(37)
<b>Net cash provided by investing activities</b>	<b>100</b>	<b>241</b>	<b>786</b>
<b>Cash flows from financing activities</b>			
Net increase/(decrease) in debt issues	1,397	(58)	(1,269)
Net decrease in due to related entities	(2,035)	(1,494)	(1,053)
Net increase/(decrease) in subordinated debentures	-	6	(19)
Net decrease in convertible debentures	-	-	(1,293)
Dividends paid on convertible debentures	-	-	(91)
Dividends paid to ordinary shareholders	-	-	(323)
Dividends paid to minority shareholders	-	-	(4)
<b>Net cash used in financing activities</b>	<b>(638)</b>	<b>(1,546)</b>	<b>(4,052)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(196)</b>	<b>96</b>	<b>(136)</b>
Cash and cash equivalents at beginning of the period/year	1,686	1,822	1,822
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,490</b>	<b>1,918</b>	<b>1,686</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with central banks	1,546	2,235	1,848
Due to other financial institutions (net)	(56)	(317)	(162)
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,490</b>	<b>1,918</b>	<b>1,686</b>

<sup>1</sup> The presentation of the statement of cash flows has been revised to better reflect the nature of our business. Cash flows from loans and deposits have been reclassified from investing and financing activities, respectively, to operating activities. Comparative figures have been revised in order to ensure consistency. These changes have had no impact on the reported net (decrease)/increase in cash and cash equivalents.

The accompanying notes (numbered 1 to 19) 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) 2013 ('**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* ('**NZ IAS 34**') and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2013. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As outlined in the Disclosure Statement for the year ended 30 September 2013, a number of new standards have become operative for the annual reporting period commencing 1 October 2013. The following new and amended standards have an impact on these financial statements:

- NZ IFRS 13 *Fair Value Measurement* ('**NZ IFRS 13**') – The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. NZ IFRS 13 applies to all assets and liabilities measured at fair value, not just financial instruments. NZ IAS 34 requires the disclosure of certain information relating to fair value as prescribed in NZ IFRS 13 and accordingly this disclosure is provided in Note 11 Fair Value of Financial Instruments.
- NZ IAS 19 *Employee Benefits* ('**NZ IAS 19**') – The amended standard has resulted in changes to the discount rate applied to the measurement of the NZ Banking Group's defined benefit superannuation obligation with retrospective application.

Adoption of the amendment has resulted in adjustments to comparative information as outlined below. The impact to the comparative consolidated income statements and consolidated statements of comprehensive income is not material and therefore these statements have not been restated. However, the adjustments outlined below in respect of the 30 September 2012 balance sheet have also been applied to the 31 December 2012 balance sheet.

\$ millions	NZ Banking Group			NZ Banking Group		
	Previously Reported 30-Sep-13	Increase/ (Decrease)	Restated 30-Sep-13	Previously Reported 30-Sep-12	Increase/ (Decrease)	Restated 30-Sep-12
<b>Balance sheet (extract)</b>						
Deferred tax assets	159	(5)	154	209	(6)	203
Other liabilities	689	(18)	671	721	(22)	699
Retained profits	2,882	13	2,895	2,526	16	2,542

These financial statements were authorised for issue by the Overseas Bank's Board of Directors ('**Board**') on 25 February 2014. 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 2013, except as amended for the changes required due to the adoption of the new and amended accounting standards 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.

# Notes to the financial statements

## Note 2 Non-interest income

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited	Year Ended 30-Sep-13 Audited
<b>Fees and commissions</b>			
Transaction fees and commissions	58	60	233
Lending fees (loan and risk)	16	16	66
Other non-risk fee income	10	8	35
<b>Total fees and commissions</b>	<b>84</b>	<b>84</b>	<b>334</b>
<b>Wealth management revenue</b>			
Fees from trust and other fiduciary activities	9	6	33
Net life insurance income and change in policy liabilities	21	19	82
<b>Total wealth management revenue</b>	<b>30</b>	<b>25</b>	<b>115</b>
<b>Trading income</b>			
Foreign exchange trading	23	21	86
Interest rate trading	15	8	39
<b>Total trading income</b>	<b>38</b>	<b>29</b>	<b>125</b>
<b>Net ineffectiveness on qualifying hedges</b>	<b>1</b>	<b>(1)</b>	<b>(1)</b>
<b>Other non-interest income</b>			
Net losses on derivatives held for risk management purposes	-	-	(1)
Dividend income	-	-	2
Gain on sale of available-for-sale securities	48	-	-
Other	1	10	11
<b>Total other non-interest income</b>	<b>49</b>	<b>10</b>	<b>12</b>
<b>Total non-interest income</b>	<b>202</b>	<b>147</b>	<b>585</b>

During the three months ended 31 December 2013, Westpac New Zealand realised a gain of \$48 million upon the sale of \$58 million of available-for-sale overseas equity securities. As at 31 December 2013, the proceeds of the sale had not been received and were recorded as receivable within other assets.

## Note 3 Impairment charges on loans

\$ millions	NZ Banking Group			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
<b>Three months ended 31 December 2013 (Unaudited)</b>				
Collectively assessed provisions	1	2	12	15
Individually assessed provisions	4	-	(11)	(7)
Bad debts written-off directly to the income statement	1	9	1	11
Interest adjustments	(1)	(2)	(3)	(6)
<b>Total impairment charges on loans</b>	<b>5</b>	<b>9</b>	<b>(1)</b>	<b>13</b>
<b>Three months ended 31 December 2012 (Unaudited)</b>				
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)
<b>Total impairment charges on loans</b>	<b>9</b>	<b>10</b>	<b>16</b>	<b>35</b>
<b>Year ended 30 September 2013 (Audited)</b>				
Collectively assessed provisions	7	4	(23)	(12)
Individually assessed provisions	27	-	55	82
Bad debts written-off directly to the income statement	3	39	21	63
Interest adjustments	(4)	(10)	(14)	(28)
<b>Total impairment charges on loans</b>	<b>33</b>	<b>33</b>	<b>39</b>	<b>105</b>

# Notes to the financial statements

## Note 4 Trading securities

\$ millions	NZ Banking Group		
	31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
Certificates of deposit	1,878	2,963	2,314
Corporate bonds	657	561	643
Mortgage-backed securities	3	4	3
NZ Government securities	770	360	480
Local authority securities	449	394	410
Off-shore securities	16	12	19
Securities purchased under agreement to resell	348	378	444
<b>Total trading securities</b>	<b>4,121</b>	<b>4,672</b>	<b>4,313</b>

As at 31 December 2013, the NZ Banking Group had \$161 million of trading securities (31 December 2012: \$16 million, 30 September 2013: \$74 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-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
Overdrafts	1,217	1,180	1,281
Credit card outstandings	1,421	1,380	1,352
Money market loans	854	1,062	997
Term loans:			
Housing	38,078	35,964	37,596
Non-housing	20,907	19,826	20,542
Other	847	855	821
<b>Total gross loans</b>	<b>63,324</b>	<b>60,267</b>	<b>62,589</b>
Provisions for impairment charges on loans	(485)	(615)	(552)
<b>Total net loans</b>	<b>62,839</b>	<b>59,652</b>	<b>62,037</b>

As at 31 December 2013, \$3.9 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 2012: \$2.9 billion, 30 September 2013: \$4.2 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 2013. As at 31 December 2013, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2.2 billion (31 December 2012: \$2.0 billion, 30 September 2013: \$2.2 billion).

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

\$ millions	NZ Banking Group			Total
	Residential Mortgages	31-Dec-13 (Unaudited) Other Loans for Consumer Purposes	Loans for Business Purposes	
<b>Total neither past due nor impaired</b>	<b>36,879</b>	<b>1,787</b>	<b>22,687</b>	<b>61,353</b>
<b>Past due assets:</b>				
Less than 90 days past due	1,060	139	249	1,448
At least 90 days past due	55	16	79	150
<b>Total past due assets</b>	<b>1,115</b>	<b>155</b>	<b>328</b>	<b>1,598</b>
<b>Individually impaired assets</b>	<b>84</b>	<b>-</b>	<b>289</b>	<b>373</b>
<b>Total gross loans</b>	<b>38,078</b>	<b>1,942</b>	<b>23,304</b>	<b>63,324</b>
Individually assessed provisions	28	-	129	157
Collectively assessed provisions	69	69	231	369
<b>Total provisions for impairment charges on loans and credit commitments</b>	<b>97</b>	<b>69</b>	<b>360</b>	<b>526</b>
Provision for credit commitments	-	-	(41)	(41)
<b>Total provisions for impairment charges on loans</b>	<b>97</b>	<b>69</b>	<b>319</b>	<b>485</b>
<b>Total net loans</b>	<b>37,981</b>	<b>1,873</b>	<b>22,985</b>	<b>62,839</b>

# Notes to the financial statements

## Note 7 Deposits

\$ millions	NZ Banking Group		
	31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
<b>Deposits at fair value</b>			
Certificates of deposit	1,244	1,591	1,534
<b>Total deposits at fair value</b>	<b>1,244</b>	<b>1,591</b>	<b>1,534</b>
<b>Deposits at amortised cost</b>			
Non-interest bearing, repayable at call	3,625	3,335	3,271
Other interest bearing:			
At call	19,753	16,858	18,488
Term	24,279	23,770	24,889
<b>Total deposits at amortised cost</b>	<b>47,657</b>	<b>43,963</b>	<b>46,648</b>
<b>Total deposits</b>	<b>48,901</b>	<b>45,554</b>	<b>48,182</b>

The NZ Branch held no retail deposits from individuals as at 31 December 2013 (31 December 2012: nil, 30 September 2013: nil).

## Note 8 Trading liabilities

\$ millions	NZ Banking Group		
	31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
<b>Held for trading</b>			
Securities sold short	356	312	424
Securities sold under agreements to repurchase	161	16	74
<b>Total trading liabilities</b>	<b>517</b>	<b>328</b>	<b>498</b>

## Note 9 Debt issues

\$ millions	NZ Banking Group		
	31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
<b>Short-term debt</b>			
Commercial paper	4,440	4,054	2,776
<b>Total short-term debt</b>	<b>4,440</b>	<b>4,054</b>	<b>2,776</b>
<b>Long-term debt</b>			
Non-domestic medium-term notes	5,238	6,124	5,128
Domestic medium-term notes	3,364	2,678	3,741
<b>Total long-term debt</b>	<b>8,602</b>	<b>8,802</b>	<b>8,869</b>
<b>Total debt issues</b>	<b>13,042</b>	<b>12,856</b>	<b>11,645</b>
Debt issues at amortised cost	8,602	8,771	8,869
Debt issues at fair value	4,440	4,085	2,776
<b>Total debt issues</b>	<b>13,042</b>	<b>12,856</b>	<b>11,645</b>
<b>Movement in debt issues</b>			
Balance at beginning of the period/year	11,645	12,914	12,914
Issuance during the period/year	3,022	1,343	7,641
Repayments during the period/year	(1,769)	(1,643)	(9,094)
Effect of foreign exchange movements during the period/year	158	235	277
Effect of fair value movements and fair value hedge adjustments during the period/year	(14)	7	(93)
<b>Balance at end of the period/year</b>	<b>13,042</b>	<b>12,856</b>	<b>11,645</b>

As at 31 December 2013, the NZ Banking Group had New Zealand Government guaranteed debt of \$1,889 million on issue (31 December 2012: \$1,985 million, 30 September 2013: \$1,881 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 2013.

# Notes to the financial statements

## Note 10 Related entities

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Controlled entities of the NZ Banking Group as at 30 September 2013 are set out in Note 26 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2013.

On 31 December 2013, the Overseas Banking Group acquired select businesses of Lloyds Banking Group Australia. As a result of this acquisition the following entities have been included in the NZ Banking Group's aggregation as at 31 December 2013:

- Capital Finance New Zealand Limited ('CFNZL');
- Sie-Lease (New Zealand) Pty Limited ('SLNZPL'); and
- BOS International (Australia) Limited New Zealand Branch ('BOSILNZ').

SLNZPL is a wholly owned subsidiary of CFNZL. The inclusion of CFNZL, SLNZPL and BOSILNZ did not have a significant impact on the NZ Banking Group's financial position or results of operations for the three months ended 31 December 2013. Furthermore, BOSILNZ was removed from the New Zealand Companies Register on 7 January 2014.

There have been no other changes to the structure or composition of the NZ Banking Group since 30 September 2013.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 December 2013, amounted to \$4,272 million (31 December 2012: \$5,818 million, 30 September 2013: \$4,498 million).

## Note 11 Fair value of financial instruments

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### *Fair valuation control framework*

The NZ Banking Group's control environment uses a well-established Fair Valuation Control Framework to ensure that fair value is either determined or validated by a function that is independent of the party that undertakes the transaction. The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

#### *Quoted price in an active market*

The best evidence of fair value is a quoted price in an active market.

#### *Valuation techniques*

Where no direct quoted price in an active market is available, the NZ Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the NZ Banking Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets. Typically in these instances valuation inputs will be derived using alternative means (including extrapolation from other relevant market data) and tested against historic transactions. The use of these inputs will require a high degree of management judgment.

### *Fair value hierarchy*

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

- **Quoted market price ('Level 1')**  
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities. Financial instruments included in the Level 1 category are exchange-traded equities and spot and exchanged traded derivatives.
- **Valuation techniques using observable inputs ('Level 2')**  
Valuation techniques using observable market prices applied to these assets or liabilities include the use of discounted cash flow analysis, option pricing models and other valuation techniques widely used and accepted by market participants. Management judgment will be used in the application of these techniques (e.g. the selection of the appropriate discount rate to value a bond).  
The financial instruments included in this category are mainly over-the-counter derivatives with observable market inputs and financial instruments for which fair value is derived from consensus pricing with sufficient contributors.  
Financial instruments included in the Level 2 category are:
  - deposits at fair value, debt issues at fair value, life insurance assets, trading liabilities, reverse repurchase agreements with related parties, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, mortgage-backed securities, NZ Government securities, local authority securities, off-shore securities and securities purchased under agreements to resell; and
  - derivatives including interest rate swaps, interest rate forwards, interest rate options and foreign exchange forwards and foreign exchange swaps.
- **Valuation technique with significant non-observable inputs ('Level 3')**  
Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions.  
Financial instruments included in the Level 3 category are NZ unlisted equity securities, long-dated NZD caps and inflation indexed derivative instruments.  
A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.



# Notes to the financial statements

## Note 11 Fair value of financial instruments (continued)

The following table summarises the attribution of financial instruments to the fair value hierarchy based on the measurement basis after initial recognition:

\$ millions	NZ Banking Group 31-Dec-13			Total
	Level 1	Level 2	Level 3 <sup>1</sup>	
<b>Financial assets</b>				
Derivative financial instruments	-	3,360	1	3,361
Trading securities	-	4,121	-	4,121
Available-for-sale securities	59	2,637	28	2,724
Life insurance assets	-	302	-	302
Due from related entities	-	786	-	786
<b>Total financial assets carried at fair value</b>	<b>59</b>	<b>11,206</b>	<b>29</b>	<b>11,294</b>
<b>Financial liabilities</b>				
Deposits at fair value	-	1,244	-	1,244
Derivative financial instruments	-	3,080	4	3,084
Trading liabilities	-	517	-	517
Debt issues at fair value	-	4,440	-	4,440
Due to related entities	-	626	-	626
<b>Total financial liabilities carried at fair value</b>	<b>-</b>	<b>9,907</b>	<b>4</b>	<b>9,911</b>

<sup>1</sup> Balances within this category of the fair value hierarchy are not considered material to the total Available-for-sale securities or total Derivative financial instruments balances.

Transfers between levels of the fair value hierarchy are determined at the end of the reporting period. There have been no significant transfers between Levels 1 and 2 during the three months ended 31 December 2013. There have also been no significant transfers into/out of Level 3 during the three months ended 31 December 2013.

### Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable, willing parties. The fair value disclosure does not cover those instruments that are not considered to be financial instruments from an accounting perspective, such as income tax and intangible assets.

The table below summarises financial instruments for which the carrying amount in the balance sheet is different from the estimated fair value:

\$ millions	NZ Banking Group 31-Dec-13	
	Total Carrying Amount	Estimated Fair Value
<b>Financial assets</b>		
Loans	62,839	62,691
<b>Total financial assets</b>	<b>62,839</b>	<b>62,691</b>
<b>Financial liabilities</b>		
Deposits	47,657	47,727
Debt issues	8,602	9,013
Subordinated debentures	693	669
<b>Total financial liabilities</b>	<b>56,952</b>	<b>57,409</b>

For cash and balances with central banks, due from and due to other financial institutions, non-derivative balances due from and due to related entities at amortised cost and other types of short-term financial instruments recognised in the balance sheet under 'other assets' and 'other liabilities', the carrying amount is equivalent to fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

# Notes to the financial statements

## Note 12 Commitments and contingent liabilities

\$ millions	NZ Banking Group		
	31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
<b>Commitments for capital expenditure</b>			
Due within one year	3	1	3
<b>Other expenditure commitments:</b>			
One year or less	85	106	108
Between one and five years	216	281	209
Over five years	1	2	1
<b>Total other expenditure commitments</b>	<b>302</b>	<b>389</b>	<b>318</b>
<b>Lease commitments (all leases are classified as operating leases)</b>			
Premises and sites	255	258	263
Motor vehicles	7	10	7
<b>Total lease commitments</b>	<b>262</b>	<b>268</b>	<b>270</b>
<b>Lease commitments are due as follows:</b>			
One year or less	42	52	54
Between one and five years	148	135	145
Over five years	72	81	71
<b>Total lease commitments</b>	<b>262</b>	<b>268</b>	<b>270</b>
<b>Other contingent liabilities and commitments</b>			
Direct credit substitutes	326	331	330
Loan commitments with certain drawdown	200	176	205
Transaction-related contingent items	776	917	818
Short-term, self-liquidating trade-related contingent liabilities	409	411	386
Other commitments to provide financial services	19,741	19,223	19,460
<b>Total other contingent liabilities and commitments</b>	<b>21,452</b>	<b>21,058</b>	<b>21,199</b>

## Note 13 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 have changed in the current reporting period as a result of changes in the information provided to the 'chief operating decision maker'. Comparative information has been restated to ensure consistent presentation with the current reporting period. 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 predominantly for individuals;
- Business Bank and Wealth provides financial services for small to medium sized enterprise customers and high net worth individuals, and provides funds management and insurance distribution services to a range of customers; and
- Corporate and Institutional provides a broad range of financial services to corporate, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

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.

# Notes to the financial statements

## Note 13 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items <sup>1</sup>	
<b>Three months ended 31 December 2013 (Unaudited)</b>					
Net interest income	181	83	98	18	380
Non-interest income	50	43	57	52	202
<b>Net operating income</b>	<b>231</b>	<b>126</b>	<b>155</b>	<b>70</b>	<b>582</b>
Net operating income from external customers	303	132	252	(105)	582
Net internal operating expense	(72)	(6)	(97)	175	-
<b>Net operating income</b>	<b>231</b>	<b>126</b>	<b>155</b>	<b>70</b>	<b>582</b>
Operating expenses	(35)	(19)	(20)	(148)	(222)
Impairment (charges)/recoveries on loans	(12)	(2)	1	-	(13)
<b>Profit before income tax expense</b>	<b>184</b>	<b>105</b>	<b>136</b>	<b>(78)</b>	<b>347</b>
<b>Total gross loans</b>	<b>29,081</b>	<b>13,526</b>	<b>20,857</b>	<b>(140)</b>	<b>63,324</b>
<b>Total deposits</b>	<b>22,600</b>	<b>13,496</b>	<b>11,561</b>	<b>1,244</b>	<b>48,901</b>
<b>Three months ended 31 December 2012 (Unaudited)</b>					
Net interest income	174	79	102	37	392
Non-interest income	47	40	57	3	147
<b>Net operating income</b>	<b>221</b>	<b>119</b>	<b>159</b>	<b>40</b>	<b>539</b>
Net operating income from external customers	289	129	260	(139)	539
Net internal operating expense	(68)	(10)	(101)	179	-
<b>Net operating income</b>	<b>221</b>	<b>119</b>	<b>159</b>	<b>40</b>	<b>539</b>
Operating expenses	(37)	(20)	(22)	(155)	(234)
Impairment charges on loans	(15)	(1)	(19)	-	(35)
<b>Profit before income tax expense</b>	<b>169</b>	<b>98</b>	<b>118</b>	<b>(115)</b>	<b>270</b>
<b>Total gross loans</b>	<b>27,191</b>	<b>12,985</b>	<b>20,295</b>	<b>(204)</b>	<b>60,267</b>
<b>Total deposits</b>	<b>20,992</b>	<b>12,625</b>	<b>10,346</b>	<b>1,591</b>	<b>45,554</b>
<b>Year ended 30 September 2013 (Unaudited)</b>					
Net interest income	701	313	408	156	1,578
Non-interest income	183	156	260	(14)	585
<b>Net operating income</b>	<b>884</b>	<b>469</b>	<b>668</b>	<b>142</b>	<b>2,163</b>
Net operating income from external customers	1,138	490	1,052	(517)	2,163
Net internal operating expense	(254)	(21)	(384)	659	-
<b>Net operating income</b>	<b>884</b>	<b>469</b>	<b>668</b>	<b>142</b>	<b>2,163</b>
Operating expenses	(139)	(77)	(79)	(582)	(877)
Impairment charges on loans	(63)	(2)	(41)	1	(105)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
<b>Profit before income tax expense</b>	<b>682</b>	<b>390</b>	<b>548</b>	<b>(438)</b>	<b>1,182</b>
<b>Total gross loans</b>	<b>28,590</b>	<b>13,414</b>	<b>20,745</b>	<b>(160)</b>	<b>62,589</b>
<b>Total deposits</b>	<b>22,012</b>	<b>13,434</b>	<b>11,202</b>	<b>1,534</b>	<b>48,182</b>

<sup>1</sup> Included in the reconciling items for total operating expenses is \$151 million (31 December 2012: \$160 million; 30 September 2013: \$582 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

## Note 14 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 calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

\$ millions	NZ Banking Group	
	31-Dec-13	Unaudited
Total assets		269
As a percentage of total assets of the NZ Banking Group		0.35%

# Notes to the financial statements

## Note 15 Risk management

### 15.1 Credit risk

#### The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2013 (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, is 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-13 (Unaudited)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	29,551	5,665	2,766	37,982
Undrawn commitments and other off-balance sheet exposures	6,707	433	186	7,326
<b>Value of exposures</b>	<b>36,258</b>	<b>6,098</b>	<b>2,952</b>	<b>45,308</b>

### 15.2 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-13 (Unaudited)	
	Implied Risk-weighted Exposure	Notional Capital Charge
<b>End-of-period</b>		
Interest rate risk	2,576	206
Foreign currency risk	124	10
Equity risk	87	7

### 15.3 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-13 Unaudited
Cash and balances with central banks	1,546
Due from other financial institutions	300
Supranational securities	431
NZ Government securities	2,537
NZ public securities	460
NZ corporate securities	1,980
Residential mortgage-backed securities	3,992
<b>Total liquid assets</b>	<b>11,246</b>

## Note 16 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 or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2013 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2013 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 or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2013 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2013 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 2013.

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 17 Overseas Bank and Overseas Banking Group capital adequacy

The table below represents the capital adequacy calculation for the Overseas Bank and Overseas Banking Group based on the Australian Prudential Regulation Authority's ('APRA') application of the Basel III capital adequacy framework. The information for the comparative reporting period is calculated based on APRA's application of the Basel 2.5 capital adequacy framework.

%	31-Dec-13 Unaudited	31-Dec-12 Unaudited
<b>Overseas Banking Group<sup>1, 2</sup></b>		
Common Equity Tier One Capital ratio	<b>8.3</b>	8.8
Additional Tier One Capital ratio	<b>1.5</b>	1.9
Tier One Capital ratio	<b>9.8</b>	10.7
Tier Two Capital ratio	<b>1.5</b>	1.4
Total Regulatory Capital ratio	<b>11.3</b>	12.1
<b>Overseas Bank (Extended Licensed Entity)<sup>1, 2</sup></b>		
Common Equity Tier One Capital ratio	<b>8.5</b>	8.5
Additional Tier One Capital ratio	<b>1.6</b>	2.0
Tier One Capital ratio	<b>10.1</b>	10.5
Tier Two Capital ratio	<b>1.6</b>	1.8
Total Regulatory Capital ratio	<b>11.7</b>	12.3

<sup>1</sup> The capital ratios represent information mandated by APRA.

<sup>2</sup> The capital ratios of the Overseas Banking Group and the Overseas Bank (Extended Licensed Entity) are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website ([www.westpac.com.au](http://www.westpac.com.au)).

APRA's new capital standards came into effect on 1 January 2013. The Overseas Banking Group is accredited by APRA to apply the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as the Basel III (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's website ([www.westpac.com.au](http://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 this process.

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 2013. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

# Notes to the financial statements

## Note 18 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 2013.

<b>Profitability</b>	<b>30-Sep-13 Audited</b>
Net profit after tax for the year ended 30 September 2013 (A\$ millions)	<b>6,890</b>
Net profit after tax (for the year ended 30 September 2013) as a percentage of average total assets	<b>1.0%</b>

<b>Total assets and equity</b>	<b>30-Sep-13 Audited</b>
Total assets (A\$ millions)	<b>696,603</b>
Percentage change in total assets over the year ended 30 September 2013	<b>3.2%</b>
Total equity (A\$ millions)	<b>46,618</b>

<b>Asset quality</b>	<b>30-Sep-13 Audited</b>
Total individually impaired assets <sup>1, 2</sup> (A\$ millions)	<b>3,153</b>
As a percentage of total assets	<b>0.5%</b>
Total individual credit impairment allowance (A\$ millions)	<b>1,364</b>
As a percentage of total individually impaired assets	<b>43.3%</b>
Total collective credit impairment allowance (A\$ millions)	<b>2,585</b>

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

<sup>2</sup> Non-financial assets have not been acquired through the enforcement of security.

## Note 19 Events after the reporting date

On 18 February 2014, Westpac New Zealand issued \$325 million of domestic senior unsecured medium term notes.



