Westpac New Zealand Limited

Disclosure Statement

For the three months ended 31 December 2013

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General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2013 are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013. There have been no changes to the structure or composition of the Banking Group since 30 September 2013.

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.

Directors

There have been no changes in the composition of the Board of Directors of the Bank since 30 September 2013.

Credit ratings

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

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

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

Guarantee arrangements

Certain material obligations of the Bank are guaranteed as at the date the Directors signed this Disclosure Statement.

Government Wholesale Guarantee

The Bank has a Wholesale Funding Guarantee Facility Deed and Wholesale Funding Guarantee with the New Zealand Government ('**Crown**'), each dated 23 February 2009 (together the '**Wholesale Guarantee**').

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued. Guaranteed Liabilities (as defined below) as at 30 April 2010 were not affected.

Description of Wholesale Guarantee

The following description of the Wholesale Guarantee is for general information purposes only and does not purport to be exhaustive. Further information about the Wholesale Guarantee is available from the Treasury internet site www.treasury.govt.nz.

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

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

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

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

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

Further information about the Wholesale Guarantee is included in the Bank's Disclosure Statement for the year ended 30 September 2013. A copy of the Bank's Disclosure Statement for the year ended 30 September 2013 is available, free of charge, at 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.

Guarantee arrangements (continued)

Summary of obligations guaranteed

The obligations guaranteed by the Crown under the Wholesale Guarantee are obligations of the Bank to pay money to a Beneficiary (as defined below) under a Guaranteed Liability. A '**Guaranteed Liability**' is a liability to pay principal or interest in respect of which the Crown has issued a Guarantee Eligibility Certificate under the Wholesale Guarantee.

In this context, a '**Beneficiary**' means each person to whom a Guaranteed Liability is owed, excluding a 'Related Party' of the Bank as that term is defined in the Wholesale Guarantee and anyone acting as a nominee of, or trustee for, a Related Party.

The Crown has issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank under certain notes issued by the Bank. The Crown has also issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank as guarantor of certain notes issued by Westpac Securities NZ Limited ('**WSNZL**'), a controlled entity of the Bank. Copies of the Guarantee Eligibility Certificates issued, which provide further details of the obligations of the Bank guaranteed by the Crown under the Wholesale Guarantee, are available on the New Zealand Treasury internet site www.treasury.govt.nz.

Expiry of the Wholesale Guarantee

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

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

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

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

There have been no changes to the terms of the Wholesale Guarantee since the date of signing the Bank's Disclosure Statement for the year ended 30 September 2013.

Pending proceedings or arbitration

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

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 the Bank) 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 Westpac Banking Corporation and the Bank 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 contingent liabilities of the Banking Group are set out in Note 11 Commitments and contingent liabilities.

Conditions of registration

The Bank's conditions of registration were amended on 27 September 2013. The amendments came into effect from 1 October 2013. The principal change was to add new conditions of registration restricting new high loan-to-valuation residential mortgage lending. The Reserve Bank of New Zealand ('**Reserve Bank**') also made some minor amendments to the 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B), revised the document 'Application for capital recognition or repayment: material to be provided to the Reserve Bank' (BS16), which is referred to in BS2B, and amended its 'Connected Exposures Policy' (BS8) to update version references. Minor amendments were also made to the conditions of registration relating to Open Bank Resolution.

Directors' statement

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

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the three months ended 31 December 2013:

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

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

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

This Disclosure Statement has been signed by all the Directors:

Peter David Wilson

Peter Graham Clare

Malcolm Guy Bailey

Philip Matthew Coffey

Janice Amelia Dawson

Christopher John David Moller

Dated this 19th day of February 2014

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Consolidated income statement for the three months ended 31 December 2013

		The Banking Group		
$ millions	Note	**Three Months Ended 31-Dec-13 Unaudited**	Three Months Ended 31-Dec-12 Unaudited	Year Ended 30-Sep-13 Audited
Interest income		**955**	960	3,768
Interest expense		**(555)**	(578)	(2,232)
Net interest income		**400**	382	1,536
Non-interest income	2	**147**	95	371
Net operating income		**547**	477	1,907
Operating expenses		**(209)**	(220)	(810)
Impairment charges on loans	3	**(13)**	(36)	(107)
Operating profit		**325**	221	990
Share of profit of associate accounted for using the equity method		**-**	-	1
Profit before income tax expense		**325**	221	991
Income tax expense		**(78)**	(62)	(277)
Profit after income tax expense		**247**	159	714
Profit after income tax expense attributable to:				
Owners of the Banking Group		**246**	158	711
Non-controlling interests		**1**	1	3
		247	159	714

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 2013

$ millions	The Banking Group Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited	Year Ended 30-Sep-13 Audited
Profit after income tax expense	**247**	159	714
Other comprehensive (expense)/income which may be reclassified to the income statement:			
Available-for-sale securities:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	**36**	(2)	23
Transferred to the income statement (refer to Note 2)	**(48)**	-	-
Exchange differences	**1**	1	1
Income tax effect	**(6)**	3	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	**25**	(11)	30
Transferred to the income statement	**(8)**	(5)	(22)
Income tax effect	**(5)**	4	(2)
Total other comprehensive (expense)/income which may be reclassified to the income statement	**(5)**	(10)	32
Other comprehensive income which will not be reclassified to the income statement:			
Actuarial gains on employee defined benefit obligations	**-**	-	39
Income tax effect	**-**	-	(11)
Total other comprehensive income which will not be reclassified to the income statement	**-**	-	28
Total other comprehensive (expense)/income, net of tax	**(5)**	(10)	60
Total comprehensive income	**242**	149	774
Total comprehensive income attributable to:			
Owners of the Banking Group	**241**	148	771
Non-controlling interests	**1**	1	3
	242	149	774

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 2013

	The Banking Group						
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	Total
As at 1 October 2012 as previously reported (Audited)	4,600	1,079	80	30	5,789	7	5,796
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	16	-	-	16	-	16
As at 1 October 2012 (Restated)	4,600	1,095	80	30	5,805	7	5,812
Three months ended 31 December 2012 (Unaudited)							
Profit after income tax expense	-	158	-	-	158	1	159
Net losses from changes in fair value	-	-	(2)	(11)	(13)	-	(13)
Income tax effect	-	-	3	3	6	-	6
Exchange differences	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	(5)	(5)	-	(5)
Income tax effect	-	-	-	1	1	-	1
Total comprehensive income for the three months ended 31 December 2012	-	158	2	(12)	148	1	149
As at 31 December 2012 (Unaudited)	4,600	1,253	82	18	5,953	8	5,961
Year ended 30 September 2013 (Audited)							
Profit after income tax expense	-	711	-	-	711	3	714
Net gains from changes in fair value	-	-	23	30	53	-	53
Income tax effect	-	-	2	(8)	(6)	-	(6)
Exchange differences	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	(22)	(22)	-	(22)
Income tax effect	-	-	-	6	6	-	6
Actuarial gains on employee defined benefit obligations	-	39	-	-	39	-	39
Income tax effect	-	(11)	-	-	(11)	-	(11)
Total comprehensive income for the year ended 30 September 2013	-	739	26	6	771	3	774
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 30 September 2013 (Audited)	4,600	1,834	106	36	6,576	6	6,582
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	(3)	-	-	(3)	-	(3)
As at 30 September 2013 (Restated)	4,600	1,831	106	36	6,573	6	6,579
Three months ended 31 December 2013 (Unaudited)							
Profit after income tax expense	**-**	**246**	**-**	**-**	**246**	**1**	**247**
Net gains from changes in fair value	**-**	**-**	**36**	**25**	**61**	**-**	**61**
Income tax effect	**-**	**-**	**(6)**	**(7)**	**(13)**	**-**	**(13)**
Exchange differences	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Income tax effect	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transferred to the income statement	**-**	**-**	**(48)**	**(8)**	**(56)**	**-**	**(56)**
Income tax effect	**-**	**-**	**-**	**2**	**2**	**-**	**2**
Total comprehensive income for the three months ended 31 December 2013	**-**	**246**	**(17)**	**12**	**241**	**1**	**242**
Transactions with owners:							
Dividends paid on ordinary shares	**-**	**(375)**	**-**	**-**	**(375)**	**-**	**(375)**
As at 31 December 2013 (Unaudited)	**4,600**	**1,702**	**89**	**48**	**6,439**	**7**	**6,446**

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 2013

		The Banking Group		
$ millions	Note	**31-Dec-13 Unaudited**	31-Dec-12 Unaudited	30-Sep-13 Audited
Assets				
Cash and balances with central banks		**1,459**	1,996	1,804
Due from other financial institutions		**364**	424	173
Derivative financial instruments		**14**	13	8
Trading securities	4	**2,204**	2,872	1,578
Available-for-sale securities		**2,724**	2,826	2,715
Loans	5, 6	**62,374**	59,191	61,585
Due from related entities		**1,919**	1,459	1,376
Investment in associate		**48**	48	48
Goodwill and other intangible assets		**670**	609	660
Property, plant and equipment		**165**	167	169
Deferred tax assets		**156**	213	175
Other assets		**272**	244	216
Total assets		**72,369**	70,062	70,507
Liabilities				
Due to other financial institutions		**3**	4	100
Deposits	7	**48,901**	45,554	48,182
Derivative financial instruments		**77**	265	178
Debt issues	8	**13,042**	12,856	11,645
Current tax liabilities		**35**	48	19
Provisions		**68**	69	77
Other liabilities		**563**	564	530
Total liabilities excluding related entities liabilities		**62,689**	59,360	60,731
Perpetual subordinated notes		**-**	500	-
Due to related entities		**3,234**	4,241	3,197
Total related entities liabilities	9	**3,234**	4,741	3,197
Total liabilities		**65,923**	64,101	63,928
Net assets		**6,446**	5,961	6,579
Equity				
Share capital		**4,600**	4,600	4,600
Retained profits		**1,702**	1,253	1,831
Available-for-sale securities reserve		**89**	82	106
Cash flow hedge reserve		**48**	18	36
Total equity attributable to owners of the Banking Group		**6,439**	5,953	6,573
Non-controlling interests		**7**	8	6
Total equity		**6,446**	5,961	6,579
Interest earning and discount bearing assets		**71,145**	68,545	69,476
Interest and discount bearing liabilities		**61,261**	59,157	59,359

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 2013

$ millions	The Banking Group Three Months Ended 31-Dec-13 Unaudited	Three Months Ended 31-Dec-12 Unaudited[1]	Year Ended 30-Sep-13 Audited
Cash flows from operating activities			
Interest income received	**959**	973	3,778
Interest expense paid	**(490)**	(537)	(2,236)
Non-interest income received	**92**	39	358
Net loans (advanced to)/repaid by customers	**(830)**	195	(2,270)
Net increase in deposits	**719**	2,164	4,792
Net (increase)/decrease in trading securities	**(613)**	(832)	449
Net movement in derivative financial instruments	**(109)**	(94)	(188)
Operating expenses paid	**(238)**	(254)	(735)
Income tax paid	**(52)**	(66)	(273)
Net cash (used in)/provided by operating activities	**(562)**	1,588	3,675
Cash flows from investing activities			
Purchase of available-for-sale securities	**(2)**	(133)	(23)
Proceeds from maturities of available-for-sale securities	**-**	-	26
Net (increase)/decrease in due from related entities	**(543)**	68	151
Purchase of capitalised computer software	**(21)**	(20)	(97)
Purchase of property, plant and equipment	**(3)**	(12)	(37)
Net cash (used in)/provided by investing activities	**(569)**	(97)	20
Cash flows from financing activities			
Net increase/(decrease) in debt issues	**1,397**	(58)	(1,269)
Net increase/(decrease) in due to related entities	**52**	(461)	(1,489)
Net decrease in perpetual subordinated notes	**-**	(470)	(970)
Payment of dividends	**(375)**	-	(4)
Net cash provided by/(used in) financing activities	**1,074**	(989)	(3,732)
Net (decrease)/increase in cash and cash equivalents	**(57)**	502	(37)
Cash and cash equivalents at beginning of the period/year	**1,877**	1,914	1,914
Cash and cash equivalents at end of the period/year	**1,820**	2,416	1,877
Cash and cash equivalents comprise:			
Cash and balances with central banks	**1,459**	1,996	1,804
Due from other financial institutions (net)	**361**	420	73
Cash and cash equivalents at end of the period/year	**1,820**	2,416	1,877

[1] 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 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 New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**').

These consolidated financial statements have been prepared and presented in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 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 10 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 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. The adjustments outlined below in respect of the 30 September 2012 balance sheet have also been applied to the 31 December 2012 balance sheet.

	The Banking Group			The Banking Group		
$ millions	**Previously Reported 30-Sep-13**	**Increase/ (Decrease)**	**Restated 30-Sep-13**	Previously Reported 30-Sep-12	Increase/ (Decrease)	Restated 30-Sep-12
Balance sheet (extract)						
Deferred tax assets	**180**	**(5)**	**175**	209	(6)	203
Other liabilities	**548**	**(18)**	**530**	579	(22)	557
Retained profits	**1,818**	**13**	**1,831**	1,079	16	1,095

Controlled entities of the Banking Group as at 30 September 2013 are set out in Note 25 to the Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2013. There have been no changes to the structure or composition of the Banking Group since 30 September 2013.

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 19 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.

Note 2 Non-interest income

$ millions	The Banking Group Three Months Ended 31-Dec-13 Unaudited	 Three Months Ended 31-Dec-12 Unaudited	 Year Ended 30-Sep-13 Audited
Fees and commissions			
Transaction fees and commissions	**75**	63	262
Lending fees (loan and risk)	**15**	15	62
Management fees received from related entities	**1**	1	4
Other non-risk fee income	**7**	7	30
Total fees and commissions	**98**	86	358
Net ineffectiveness on qualifying hedges	**1**	-	1
Other non-interest income			
Net unrealised losses on derivatives held for trading	**(1)**	-	-
Dividend income	**-**	-	2
Gain on sale of available-for-sale securities	**48**	-	-
Other	**1**	9	10
Total other non-interest income	**48**	9	12
Total non-interest income	**147**	95	371

During the three months ended 31 December 2013 the Bank 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 a receivable within other assets.

Note 3 Impairment charges on loans

$ millions	The Banking Group Residential Mortgages	 Other Loans for Consumer Purposes	 Loans for Business Purposes	 Total
Three months ended 31 December 2013 (Unaudited)				
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)**
Total impairment charges on loans	**5**	**9**	**(1)**	**13**
Three months ended 31 December 2012 (Unaudited)				
Collectively assessed provisions	-	2	9	11
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	17	36
Year ended 30 September 2013 (Audited)				
Collectively assessed provisions	7	4	(21)	(10)
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)
Total impairment charges on loans	33	33	41	107

Notes to the financial statements

Note 4 Trading securities

$ millions	The Banking Group 31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
Certificates of deposit	**1,292**	2,277	892
Corporate bonds	**352**	258	337
NZ Government securities	**-**	14	1
Local authority securities	**351**	323	348
Securities purchased under agreement to resell	**209**	-	-
Total trading securities	**2,204**	2,872	1,578

As at 31 December 2013, no trading securities in the Banking Group (31 December 2012: nil, 30 September 2013: nil) were encumbered through repurchase agreements.

Note 5 Loans

$ millions	The 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	**38,071**	35,978	37,594
Non-housing	**20,881**	19,798	20,515
Other	**415**	407	398
Total gross loans	**62,859**	59,805	62,137
Provisions for impairment charges on loans	**(485)**	(614)	(552)
Total net loans	**62,374**	59,191	61,585

As at 31 December 2013, $3.9 billion of housing loans are used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under the Bank'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 the Bank'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

	The Banking Group 31-Dec-13 (Unaudited)			
$ millions	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Total neither past due nor impaired	**36,872**	**1,787**	**22,229**	**60,888**
Past due assets:				
Less than 90 days past due	**1,060**	**139**	**249**	**1,448**
At least 90 days past due	**55**	**16**	**79**	**150**
Total past due assets	**1,115**	**155**	**328**	**1,598**
Individually impaired assets	**84**	**-**	**289**	**373**
Total gross loans	**38,071**	**1,942**	**22,846**	**62,859**
Individually assessed provisions	**28**	**-**	**129**	**157**
Collectively assessed provisions	**69**	**69**	**231**	**369**
Total provisions for impairment charges on loans and credit commitments	**97**	**69**	**360**	**526**
Provision for credit commitments	**-**	**-**	**(41)**	**(41)**
Total provisions for impairment charges on loans	**97**	**69**	**319**	**485**
Total net loans	**37,974**	**1,873**	**22,527**	**62,374**

Note 7 Deposits

$ millions	The Banking Group 31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
Deposits at fair value			
Certificates of deposit	**1,244**	1,591	1,534
Total deposits at fair value	**1,244**	1,591	1,534
Deposits at amortised cost			
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
Total deposits at amortised cost	**47,657**	43,963	46,648
Total deposits	**48,901**	45,554	48,182

Note 8 Debt issues

$ millions	The Banking Group 31-Dec-13 Unaudited	31-Dec-12 Unaudited	30-Sep-13 Audited
Short-term debt			
Commercial paper	**4,440**	4,054	2,776
Total short-term debt	**4,440**	4,054	2,776
Long-term debt			
Non-domestic medium-term notes	**5,238**	6,124	5,128
Domestic medium-term notes	**3,364**	2,678	3,741
Total long-term debt	**8,602**	8,802	8,869
Total debt issues	**13,042**	12,856	11,645
Debt issues at amortised cost	**8,602**	8,771	8,869
Debt issues at fair value	**4,440**	4,085	2,776
Total debt issues	**13,042**	12,856	11,645
Movement in debt issues			
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)
Balance at end of the period/year	**13,042**	12,856	11,645

As at 31 December 2013, the 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). Refer to Guarantee arrangements on pages 1 and 2 for further information on New Zealand Government guaranteed debt.

Note 9 Related entities

Controlled entities of the Bank as at 30 September 2013 are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013.

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

As at 31 December 2013, $279 million of available-for-sale securities in the Banking Group (31 December 2012: nil, 30 September 2013: nil) were encumbered through repurchase agreements with the New Zealand Branch of Westpac Banking Corporation.

Note 10 Fair value of financial instruments

Fair valuation control framework

The 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 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 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 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.

- 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, reverse repurchase agreements with related parties, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, NZ Government securities, local authority securities and securities purchased under agreement to resell; and
  - derivatives including interest rate swaps and foreign exchange swaps, with external and related parties.

- 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.

  A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

Note 10 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	The Banking Group 31-Dec-13 Level 1	Level 2	Level 3[1]	Total
Financial assets				
Derivative financial instruments	-	14	-	14
Trading securities	-	2,204	-	2,204
Available-for-sale securities	59	2,637	28	2,724
Due from related entities	-	631	-	631
Total financial assets carried at fair value	59	5,486	28	5,573
Financial liabilities				
Deposits at fair value	-	1,244	-	1,244
Derivative financial instruments	-	77	-	77
Debt issues at fair value	-	4,440	-	4,440
Due to related entities	-	274	-	274
Total financial liabilities carried at fair value	-	6,035	-	6,035

1 Balances within this category of the fair value hierarchy are not considered material to the total Available-for-sale securities balance.

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	The Banking Group 31-Dec-13 Total Carrying Amount	Estimated Fair Value
Financial assets		
Loans	62,374	62,232
Total financial assets	62,374	62,232
Financial liabilities		
Deposits	47,657	47,727
Debt issues	8,602	9,013
Total financial liabilities	56,259	56,740

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 which are carried 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.

Note 11 Commitments and contingent liabilities

$ millions	The Banking Group 31-Dec-13 Unaudited	 31-Dec-12 Unaudited	 30-Sep-13 Audited
Commitments for capital expenditure			
Due within one year	**3**	1	3
Other expenditure commitments:			
One year or less	**85**	106	108
Between one and five years	**216**	281	209
Over five years	**1**	2	1
Total other expenditure commitments	**302**	389	318
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**255**	258	263
Motor vehicles	**7**	10	7
Total lease commitments	**262**	268	270
Lease commitments are due as follows:			
One year or less	**42**	52	54
Between one and five years	**148**	135	145
Over five years	**72**	81	71
Total lease commitments	**262**	268	270
Other contingent liabilities and commitments			
Direct credit substitutes	**70**	75	74
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	**19,656**	19,177	19,369
Total other contingent liabilities and commitments	**21,111**	20,756	20,852

Note 12 Segment information

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

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

- 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.

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 of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Note 12 Segment information (continued)

$ millions	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items[1]	Total
	The Banking Group				
Three months ended 31 December 2013 (Unaudited)					
Net interest income	**181**	**83**	**93**	**43**	**400**
Non-interest income	**50**	**43**	**24**	**30**	**147**
Net operating income	**231**	**126**	**117**	**73**	**547**
Net operating income from external customers	**303**	**132**	**208**	**(96)**	**547**
Net internal operating expense	**(72)**	**(6)**	**(91)**	**169**	**-**
Net operating income	**231**	**126**	**117**	**73**	**547**
Operating expenses	**(35)**	**(19)**	**(12)**	**(143)**	**(209)**
Impairment (charges)/recoveries on loans	**(12)**	**(2)**	**1**	**-**	**(13)**
Profit before income tax expense	**184**	**105**	**106**	**(70)**	**325**
Total gross loans	**29,081**	**13,526**	**20,407**	**(155)**	**62,859**
Total deposits	**22,600**	**13,496**	**11,561**	**1,244**	**48,901**
Three months ended 31 December 2012 (Unaudited)					
Net interest income	174	79	99	30	382
Non-interest income	47	40	26	(18)	95
Net operating income	221	119	125	12	477
Net operating income from external customers	289	129	219	(160)	477
Net internal operating expense	(68)	(10)	(94)	172	-
Net operating income	221	119	125	12	477
Operating expenses	(37)	(20)	(13)	(150)	(220)
Impairment charges on loans	(15)	(1)	(20)	-	(36)
Profit before income tax expense	169	98	92	(138)	221
Total gross loans	27,191	12,985	19,820	(191)	59,805
Total deposits	20,992	12,625	10,346	1,591	45,554
Year ended 30 September 2013 (Unaudited)					
Net interest income	701	313	392	130	1,536
Non-interest income	183	156	122	(90)	371
Net operating income	884	469	514	40	1,907
Net operating income from external customers	1,138	490	874	(595)	1,907
Net internal operating expense	(254)	(21)	(360)	635	-
Net operating income	884	469	514	40	1,907
Operating expenses	(139)	(77)	(47)	(547)	(810)
Impairment charges on loans	(63)	(2)	(43)	1	(107)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	682	390	424	(505)	991
Total gross loans	28,590	13,414	20,294	(161)	62,137
Total deposits	22,012	13,434	11,202	1,534	48,182

[1] 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 13 Insurance business

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

Note 14 Capital adequacy

The information contained in this note has been derived in accordance with the Bank's conditions of registration which relate to capital adequacy and the document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) issued by the Reserve Bank. Effective from 1 January 2013 the Banking Group incorporated the Reserve Bank's application of the Basel III capital adequacy requirements.

During the three months ended 31 December 2013, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

$ millions	The Banking Group 31-Dec-13 Unaudited
Tier One Capital	
Common Equity Tier One Capital[1]	**6,439**
Less deductions from Common Equity Tier One Capital	**(1,016)**
Total Common Equity Tier One Capital	**5,423**
Additional Tier One Capital	**2**
Less deductions from Additional Tier One Capital	**-**
Total Tier One Capital	**5,425**
Tier Two Capital	**-**
Less deductions from Tier Two Capital	**-**
Total Capital	**5,425**

1 Common Equity Tier One Capital includes available-for-sale securities reserve of $89 million and cash flow hedge reserve of $48 million.

Capital ratios

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 1 of Schedule 12 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

%	The Banking Group 31-Dec-13 Unaudited
Capital adequacy ratios	
Common Equity Tier One Capital ratio	**11.9**
Tier One Capital ratio	**11.9**
Total Capital ratio	**11.9**
Reserve Bank minimum ratios	
Common Equity Tier One Capital ratio	**4.5**
Tier One Capital ratio	**6.0**
Total Capital ratio	**8.0**
Buffer ratios	
Buffer ratio[1]	**3.9**
Buffer ratio requirement[1]	**2.5**

1 As at 31 December 2013, there is no prescribed minimum regulatory buffer ratio. A prescribed minimum regulatory ratio of 2.5% became effective from 1 January 2014.

Note 14 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

$ millions	The Banking Group 31-Dec-13 Unaudited
Credit risk	
Exposures subject to the internal ratings based approach:	
Residential mortgages	1,137
Other retail (credit cards, personal loans, personal overdrafts)	203
Small business	60
Banking Group – Corporate/Business lending	1,252
Sovereign	16
Bank	26
Total exposures subject to the internal ratings based approach	2,694
Exposures not subject to the internal ratings based approach:	
Equity exposures	25
Specialised lending subject to the slotting approach	402
Exposures subject to the standardised approach	105
Total exposures not subject to the internal ratings based approach	532
Total credit risk (scaled)[1]	3,226
Operational risk	360
Market risk	69
Supervisory adjustment	-
Total	3,655

1 As disclosed in the Bank's conditions of registration included in the Disclosure Statement for the year ended 30 September 2013, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06.

Capital for other material risk

The Banking Group's internal capital adequacy assessment process identifies, reviews and measures additional material risks that must be captured within the Banking Group's capital adequacy assessment process. These other material risks are those not captured by Pillar 1 regulatory capital requirements and consist of funding liquidity risk, reputational risk, environmental, social and governance risk, business risk, model risk and subsidiary risk.

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

$ millions	The Banking Group 31-Dec-13 Unaudited
Internal capital allocation	
Other material risk	588

Note 15 Risk management

15.1 Credit risk

The 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 Bank 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 7 of Schedule 12 to the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

	The Banking Group 31-Dec-13 (Unaudited)					
LVR range ($ millions)	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	14,355	6,375	8,821	5,665	2,766	37,982
Undrawn commitments and other off-balance sheet exposures	4,460	1,135	1,112	433	186	7,326
Value of exposures	18,815	7,510	9,933	6,098	2,952	45,308

Note 15 Risk management (continued)

15.2 Liquidity risk

Liquid assets

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

$ millions	The Banking Group 31-Dec-13 Unaudited
Cash and balances with central banks	**1,459**
Due from other financial institutions	**300**
Due from other financial institutions (included in due from related entities)	**845**
Supranational securities	**431**
NZ Government securities	**2,537**
NZ public securities	**460**
NZ corporate securities	**1,766**
Residential mortgage-backed securities	**3,992**
Total liquid assets	**11,790**

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 Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the 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 Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 December 2013 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having an aggregate credit exposure between 15%-19%; and
- for the three months ended 31 December 2013 were two counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having a peak end-of-day aggregate credit exposure between 10%-14% and the other having a peak end-of-day aggregate credit exposure between 15-19%.

The peak end-of-day aggregate credit exposures to each individual counterparty or a group of closely related counterparties 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 Banking Group's equity as at the end of the period.

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

Note 17 Events after the reporting date

On 18 February 2014, the Bank issued $325 million of domestic senior unsecured medium term notes.

Westpac New Zealand Limited