

Westpac New Zealand Limited

Disclosure Statement

For the six months ended 31 March 2014



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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 2014 ('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 in 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

Peter Leonard Thodey was appointed as a Director of the Bank on 20 February 2014. There have been no other changes in the composition of the Board of Directors of the Bank (the '**Board**') 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 this Disclosure Statement was signed:

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:

- Minister of Finance, Parliament Buildings, Wellington; or
- New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or
- 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. 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). To date, no such proceedings have been filed against the Bank. 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. To date, no such proceedings have been filed and the Commerce Commission has advised that it anticipates making a further announcement mid-year. 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 March 2014 with effect from 30 March 2014. The reference to the 'Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19)' was revised to refer to the latest version of BS19. The principal amendment to BS19 has been to add an exemption for new residential construction loans from the high loan-to-valuation residential mortgage lending restrictions. Certain definitions in the conditions of registration were also amended to ensure that they are defined in accordance with the Financial Reporting Act 2013 unless the Financial Reporting Act 1993 still applies.

Auditors

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand



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 six months ended 31 March 2014:

- (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



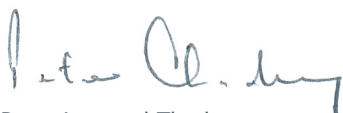
Philip Matthew Coffey



Janice Amelia Dawson



Christopher John David Moller



Peter Leonard Thodey

Dated this 22nd day of May 2014

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Consolidated income statement for the six months ended 31 March 2014

\$ millions	Note	The Banking Group		
		Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Interest income		1,905	1,888	3,768
Interest expense		(1,109)	(1,122)	(2,232)
Net interest income		796	766	1,536
Non-interest income	2	242	182	371
Net operating income		1,038	948	1,907
Operating expenses		(407)	(415)	(810)
Impairment charges on loans	3	(3)	(57)	(107)
Operating profit		628	476	990
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		628	476	991
Income tax expense		(164)	(132)	(277)
Profit after income tax expense		464	344	714
Profit after income tax expense attributable to:				
Owners of the Banking Group		463	342	711
Non-controlling interests		1	2	3
		464	344	714

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.



Consolidated statement of comprehensive income for the six months ended 31 March 2014

\$ millions	The Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Profit after income tax expense	464	344	714
Other comprehensive (expense)/income which may be reclassified to the income statement:			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	23	33	23
Transferred to the income statement (refer to Note 2)	(48)	-	-
Exchange differences	(2)	-	1
Income tax effect	(3)	(4)	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	16	(29)	30
Transferred to the income statement	(14)	(10)	(22)
Income tax effect	-	11	(2)
Total other comprehensive (expense)/income which may be reclassified to the income statement	(28)	1	32
Other comprehensive income which will not be reclassified to the income statement:			
Actuarial gains on employee defined benefit obligations	-	6	39
Income tax effect	-	(2)	(11)
Total other comprehensive income which will not be reclassified to the income statement	-	4	28
Total other comprehensive (expense)/income, net of tax	(28)	5	60
Total comprehensive income	436	349	774
Total comprehensive income attributable to:			
Owners of the Banking Group	435	347	771
Non-controlling interests	1	2	3
	436	349	774

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.



Consolidated statement of changes in equity for the six months ended 31 March 2014

\$ millions	The Banking Group						
	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	Total Equity
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
Six months ended 31 March 2013 (Unaudited)							
Profit after income tax expense	-	342	-	-	342	2	344
Net gains/(losses) from changes in fair value	-	-	33	(29)	4	-	4
Income tax effect	-	-	(4)	8	4	-	4
Exchange differences	-	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	(10)	(10)	-	(10)
Income tax effect	-	-	-	3	3	-	3
Actuarial gains on employee defined benefit obligations	-	6	-	-	6	-	6
Income tax effect	-	(2)	-	-	(2)	-	(2)
Total comprehensive income for the six months ended 31 March 2013	-	346	29	(28)	347	2	349
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(4)	(4)
As at 31 March 2013 (Unaudited)	4,600	1,441	109	2	6,152	5	6,157
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
Six months ended 31 March 2014 (Unaudited)							
Profit after income tax expense	-	463	-	-	463	1	464
Net gains from changes in fair value	-	-	23	16	39	-	39
Income tax effect	-	-	(3)	(4)	(7)	-	(7)
Exchange differences	-	-	(2)	-	(2)	-	(2)
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(48)	(14)	(62)	-	(62)
Income tax effect	-	-	-	4	4	-	4
Total comprehensive income for the six months ended 31 March 2014	-	463	(30)	2	435	1	436
Transaction with owners:							
Dividends paid on ordinary shares	-	(375)	-	-	(375)	(3)	(378)
As at 31 March 2014 (Unaudited)	4,600	1,919	76	38	6,633	4	6,637

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.



Consolidated balance sheet as at 31 March 2014

\$ millions	Note	The Banking Group		
		31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Assets				
Cash and balances with central banks		1,644	1,855	1,804
Due from other financial institutions		252	337	173
Derivative financial instruments		7	8	8
Trading securities	4	2,193	2,015	1,578
Available-for-sale securities		2,691	2,830	2,715
Loans	5,6	63,160	59,915	61,585
Due from related entities		1,942	1,412	1,376
Investment in associate		48	48	48
Goodwill and other intangible assets		676	617	660
Property, plant and equipment		164	165	169
Current tax assets		6	-	-
Deferred tax assets		150	212	175
Other assets		215	240	216
Total assets		73,148	69,654	70,507
Liabilities				
Due to other financial institutions		-	-	100
Deposits	7	49,665	46,068	48,182
Derivative financial instruments		224	353	178
Debt issues	8	12,257	11,651	11,645
Current tax liabilities		-	14	19
Provisions		68	78	77
Other liabilities		538	578	530
Total liabilities excluding related entities liabilities		62,752	58,742	60,731
Perpetual subordinated notes		-	500	-
Due to related entities		3,759	4,255	3,197
Total related entities liabilities		3,759	4,755	3,197
Total liabilities		66,511	63,497	63,928
Net assets		6,637	6,157	6,579
Equity				
Share capital		4,600	4,600	4,600
Retained profits		1,919	1,441	1,831
Available-for-sale securities reserve		76	109	106
Cash flow hedge reserve		38	2	36
Total equity attributable to owners of the Banking Group		6,633	6,152	6,573
Non-controlling interests		4	5	6
Total equity		6,637	6,157	6,579
Interest earning and discount bearing assets		72,058	68,628	69,476
Interest and discount bearing liabilities		61,556	58,516	59,359

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.



Consolidated statement of cash flows for the six months ended 31 March 2014

\$ millions	The Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited ¹	Year Ended 30-Sep-13 Audited ¹
Cash flows from operating activities			
Interest income received	1,903	1,876	3,778
Interest expense paid	(1,119)	(1,135)	(2,236)
Non-interest income received	184	147	358
Operating expenses paid	(361)	(341)	(735)
Income tax paid	(168)	(171)	(273)
Cash flows from operating activities before changes in operating assets and liabilities	439	376	892
Net (increase)/decrease in:			
Due from other financial institutions	(39)	(15)	149
Trading securities	(602)	25	449
Loans	(1,606)	(550)	(2,270)
Due from related entities	(566)	115	151
Net increase/(decrease) in:			
Due to other financial institutions	(100)	(3)	97
Deposits	1,483	2,678	4,792
Net movement in external and related entity derivative financial instruments	(7)	(349)	(309)
Net cash (used in)/provided by operating activities	(998)	2,277	3,951
Cash flows from investing activities			
Purchase of available-for-sale securities	(43)	(146)	(191)
Proceeds from maturities/sale of available-for-sale securities	83	-	26
Purchase of capitalised computer software	(38)	(37)	(97)
Purchase of property, plant and equipment	(6)	(15)	(37)
Net cash used in investing activities	(4)	(198)	(299)
Cash flows from financing activities			
Net increase/(decrease) in debt issues	897	(1,189)	(1,453)
Net increase/(decrease) in due to related entities	363	(156)	(1,016)
Net decrease in perpetual subordinated notes	-	(470)	(970)
Payment of dividends	(378)	(4)	(4)
Net cash provided by/(used in) financing activities	882	(1,819)	(3,443)
Net (decrease)/increase in cash and cash equivalents	(120)	260	209
Cash and cash equivalents at beginning of the period/year	1,804	1,595	1,595
Cash and cash equivalents at end of the period/year	1,684	1,855	1,804
Cash and cash equivalents at end of the period/year comprise:			
Cash and balances with central banks	1,644	1,855	1,804
Due from other financial institutions	40	-	-
Cash and cash equivalents at end of the period/year	1,684	1,855	1,804

¹ The presentation of the statement of cash flows has been revised to improve the classification of movements in cash and cash equivalents. Certain cash flows have been reclassified between operating, investing and financing activities. Certain balances due from/to other financial institutions have been reclassified out of cash and cash equivalents. Comparative figures have been revised in order to ensure consistency.

The accompanying notes (numbered 1 to 18) 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 2014 ('**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 Statements for the year ended 30 September 2013 and for the three months ended 31 December 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 effective for the annual reporting period commencing 1 October 2013. The following new and amended standards have an impact on these financial statements:

- NZ IFRS 9 (2013) *Financial Instruments* ('**NZ IFRS 9 (2013)**') – NZ IFRS 9 (2013) was issued by the External Reporting Board in December 2013. Unless early adopted, the standard is effective for the 30 September 2018 financial year. The Banking Group has early adopted the recognition of the change in the portion of the fair value of financial liabilities designated at fair value which is attributable to the Banking Group's own credit risk in other comprehensive income except where that would create an accounting mismatch. Where an accounting mismatch occurs, all changes in fair value are recognised in the income statement. The impact of the change on individual line items in the financial statements is not material.
- 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 adjustments in respect of the 30 September 2012 balance sheet have also been applied to the 31 March 2013 balance sheet. The impact on the comparative consolidated income statements and consolidated statements of comprehensive income is not material and therefore these statements have not been restated.

\$ millions	The Banking Group			The Banking Group		
	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 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 22 May 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	The Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Fees and commissions			
Transaction fees and commissions	142	125	262
Lending fees (loan and risk)	31	30	62
Management fees received from related entities	2	1	4
Other non-risk fee income	15	14	30
Total fees and commissions	190	170	358
Net ineffectiveness on qualifying hedges	1	2	1
Other non-interest income			
Net unrealised losses on derivatives held for trading	(2)	-	-
Dividend income	1	1	2
Gain on sale of available-for-sale securities ¹	48	-	-
Other	4	9	10
Total other non-interest income	51	10	12
Total non-interest income	242	182	371

¹ During the six months ended 31 March 2014 the Bank realised a gain of \$48 million upon the sale of \$58 million of available-for-sale overseas equity securities. In April 2014, the Bank sold its remaining overseas equity securities to Westpac Banking Corporation (the 'Ultimate Parent Bank') for \$50 million, realising a gain of \$41 million.

Note 3 Impairment charges on loans

\$ millions	The Banking Group			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Six months ended 31 March 2014 (Unaudited)				
Collectively assessed provisions	1	9	(5)	5
Individually assessed provisions	6	-	(10)	(4)
Bad debts written-off/(recovered) directly to the income statement	1	20	(4)	17
Interest adjustments	(2)	(5)	(8)	(15)
Total impairment charges/(recoveries) on loans	6	24	(27)	3
Six months ended 31 March 2013 (Unaudited)				
Collectively assessed provisions	-	6	6	12
Individually assessed provisions	15	-	8	23
Bad debts written-off directly to the income statement	1	19	15	35
Interest adjustments	(1)	(4)	(8)	(13)
Total impairment charges on loans	15	21	21	57
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-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Certificates of deposit	1,575	1,430	892
Corporate bonds	321	285	337
NZ Government securities	-	2	1
Local authority securities	297	298	348
Total trading securities	2,193	2,015	1,578

As at 31 March 2014, \$5 million of trading securities in the Banking Group (31 March 2013: nil, 30 September 2013: nil) were encumbered through repurchase agreements with the New Zealand Branch of Westpac Banking Corporation.

Note 5 Loans

\$ millions	The Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Overdrafts	1,219	1,194	1,281
Credit card outstandings	1,380	1,337	1,352
Money market loans	1,052	1,144	997
Term loans:			
Housing	38,662	36,542	37,594
Non-housing	20,881	19,954	20,515
Other	421	353	398
Total gross loans	63,615	60,524	62,137
Provisions for impairment charges on loans	(455)	(609)	(552)
Total net loans	63,160	59,915	61,585

As at 31 March 2014, \$3.7 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 March 2013: \$2.8 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 March 2014, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2.1 billion (31 March 2013: \$1.9 billion, 30 September 2013: \$2.2 billion).



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

\$ millions	The Banking Group 31-Mar-14 (Unaudited)			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Neither past due nor impaired	37,399	1,762	22,420	61,581
Past due assets				
Less than 30 days past due	952	113	257	1,322
At least 30 days but less than 60 days past due	120	22	43	185
At least 60 days but less than 90 days past due	48	11	2	61
At least 90 days past due	61	17	37	115
Total past due assets	1,181	163	339	1,683
Individually impaired assets¹				
Balance at beginning of the period	93	-	480	573
Additions	42	-	28	70
Amounts written off	(10)	-	(85)	(95)
Returned to performing or repaid	(43)	-	(154)	(197)
Balance at end of the period	82	-	269	351
Total gross loans²	38,662	1,925	23,028	63,615
Individually assessed provisions				
Balance at beginning of the period	30	-	203	233
Impairment charges on loans:				
New provisions	13	-	16	29
Recoveries	(1)	-	(2)	(3)
Reversal of previously recognised impairment charges on loans	(6)	-	(24)	(30)
Amounts written off	(10)	-	(85)	(95)
Interest adjustments	-	-	1	1
Balance at end of the period	26	-	109	135
Collectively assessed provisions				
Balance at beginning of the period	68	67	219	354
Impairment charges/(recoveries) on loans	1	9	(5)	5
Balance at end of the period	69	76	214	359
Total provisions for impairment charges on loans and credit commitments	95	76	323	494
Provision for credit commitments	-	-	(39)	(39)
Total provisions for impairment charges on loans	95	76	284	455
Total net loans	38,567	1,849	22,744	63,160

¹ The Banking Group had undrawn commitments of \$1 million to counterparties for whom drawn balances are classified as individually impaired assets under loans for business purposes as at 31 March 2014.

² The Banking Group did not have other assets under administration as at 31 March 2014.

Notes to the financial statements

Note 7 Deposits

\$ millions	The Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Deposits at fair value			
Certificates of deposit	1,307	1,036	1,534
Total deposits at fair value	1,307	1,036	1,534
Deposits at amortised cost			
Non-interest bearing, repayable at call	3,457	3,257	3,271
Other interest bearing:			
At call	20,420	17,440	18,488
Term	24,481	24,335	24,889
Total deposits at amortised cost	48,358	45,032	46,648
Total deposits	49,665	46,068	48,182

Priority of financial liabilities in the event of liquidation

In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Note 8 Debt issues

\$ millions	The Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Short-term debt			
Commercial paper	2,656	4,027	2,776
Total short-term debt	2,656	4,027	2,776
Long-term debt			
Non-domestic medium-term notes	5,897	4,940	5,128
Domestic medium-term notes	3,704	2,684	3,741
Total long-term debt	9,601	7,624	8,869
Total debt issues	12,257	11,651	11,645
Debt issues at amortised cost	9,601	7,624	8,869
Debt issues at fair value	2,656	4,027	2,776
Total debt issues	12,257	11,651	11,645
Movement in debt issues			
Balance at beginning of the period/year	11,645	12,914	12,914
Issuance during the period/year	5,055	3,213	7,641
Repayments during the period/year	(4,158)	(4,402)	(9,094)
Effect of foreign exchange movements during the period/year	(255)	(35)	277
Effect of fair value movements and fair value hedge adjustments during the period/year	(30)	(39)	(93)
Balance at end of the period/year	12,257	11,651	11,645

As at 31 March 2014, the Banking Group had New Zealand Government guaranteed debt of \$1,824 million on issue (31 March 2013: \$1,897 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 March 2014, \$375 million of available-for-sale securities in the Banking Group (31 March 2013: 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 and NZ Government securities.
- 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).
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, 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 techniques 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.

Notes to the financial statements

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			Total
	Level 1	31-Mar-14 (Unaudited) Level 2	Level 3 ¹	
Financial assets				
Derivative financial instruments	-	7	-	7
Trading securities	-	2,193	-	2,193
Available-for-sale securities	2,027	636	28	2,691
Due from related entities	-	627	-	627
Total financial assets carried at fair value	2,027	3,463	28	5,518
Financial liabilities				
Deposits at fair value	-	1,307	-	1,307
Derivative financial instruments	-	224	-	224
Debt issues at fair value	-	2,656	-	2,656
Due to related entities	-	1,030	-	1,030
Total financial liabilities carried at fair value	-	5,217	-	5,217

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

In the second quarter of the financial year, Westpac Banking Corporation (the 'Ultimate Parent Bank'), being a primary dealer, has seen and participated in increased liquidity in the Government bond markets as part of its broader financial markets strategy. Therefore financial assets include \$1,973 million of New Zealand Government bonds which have been transferred from Level 2 to Level 1 of the fair value hierarchy. There have been no significant transfers into/out of Level 3 during the six months ended 31 March 2014. Transfers in and transfers out are reported using the end-of-period fair values.

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. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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-Mar-14 (Unaudited) Total Carrying Amount	Estimated Fair Value
Financial assets		
Loans	63,160	62,977
Total financial assets	63,160	62,977
Financial liabilities		
Deposits	48,358	48,412
Debt issues	9,601	9,734
Total financial liabilities	57,959	58,146

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 repriced frequently, and are of a high credit rating.



Note 11 Commitments and contingent liabilities

\$ millions	The Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Commitments for capital expenditure			
Due within one year	3	5	3
Other expenditure commitments:			
One year or less	103	115	108
Between one and five years	178	245	209
Over five years	1	2	1
Total other expenditure commitments	282	362	318
Lease commitments (all leases are classified as operating leases)			
Premises and sites	247	251	263
Motor vehicles	7	9	7
Total lease commitments	254	260	270
Lease commitments are due as follows:			
One year or less	52	50	54
Between one and five years	142	132	145
Over five years	60	78	71
Total lease commitments	254	260	270
Other contingent liabilities and commitments			
Direct credit substitutes	73	77	74
Loan commitments with certain drawdown	194	163	205
Transaction-related contingent items	752	899	818
Short-term, self-liquidating trade-related contingent liabilities	417	397	386
Other commitments to provide financial services	19,881	18,669	19,369
Total other contingent liabilities and commitments	21,317	20,205	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.

Notes to the financial statements

Note 12 Segment information (continued)

\$ millions	The Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items ¹	
Six months ended 31 March 2014 (Unaudited)					
Net interest income	359	165	185	87	796
Non-interest income	99	89	47	7	242
Net operating income	458	254	232	94	1,038
Net operating income from external customers	605	269	409	(245)	1,038
Net internal operating expense	(147)	(15)	(177)	339	-
Net operating income	458	254	232	94	1,038
Operating expenses	(68)	(37)	(23)	(279)	(407)
Impairment (charges)/recoveries on loans	(27)	(3)	13	14	(3)
Profit before income tax expense	363	214	222	(171)	628
Total gross loans	29,456	13,754	20,547	(142)	63,615
Total deposits	22,521	13,654	12,183	1,307	49,665
Six months ended 31 March 2013 (Unaudited)					
Net interest income	347	157	196	66	766
Non-interest income	95	83	50	(46)	182
Net operating income	442	240	246	20	948
Net operating income from external customers	572	256	427	(307)	948
Net internal operating expense	(130)	(16)	(181)	327	-
Net operating income	442	240	246	20	948
Operating expenses	(72)	(38)	(23)	(282)	(415)
Impairment charges on loans	(32)	(1)	(24)	-	(57)
Profit before income tax expense	338	201	199	(262)	476
Total gross loans	27,660	13,058	19,997	(191)	60,524
Total deposits	21,198	12,955	10,879	1,036	46,068
Year ended 30 September 2013 (Audited)					
Net interest income	701	315	392	128	1,536
Non-interest income	196	166	101	(92)	371
Net operating income	897	481	493	36	1,907
Net operating income from external customers	1,151	502	853	(599)	1,907
Net internal operating expense	(254)	(21)	(360)	635	-
Net operating income	897	481	493	36	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	695	402	403	(509)	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 \$294 million (31 March 2013: \$297 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.

During the six months ended 31 March 2014, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

\$ millions	The Banking Group 31-Mar-14 Unaudited
Tier One Capital	
Common Equity Tier One Capital	
Paid-up ordinary shares issued by the Bank plus related share premium	4,600
Retained earnings (net of appropriations)	1,919
Accumulated other comprehensive income and other disclosed reserves ¹	114
Less deductions from Common Equity Tier One Capital	
Goodwill	(477)
Other intangible assets	(199)
Cash flow hedge reserve	(38)
Deferred tax assets deduction	(150)
Expected loss excess over eligible allowance	(156)
Total Common Equity Tier One Capital	5,613
Additional Tier One Capital	
Interests arising from ordinary shares issued by fully consolidated subsidiaries and held by third parties ²	2
Total Tier One Capital	5,615
Tier Two Capital	
Revaluation reserves	-
Eligible impairment allowance in excess of expected loss	-
Total Tier Two Capital	-
Total Capital	5,615

¹ Accumulated other comprehensive income and other disclosed reserves consists of available-for-sale securities reserve of \$76 million and cash flow hedge reserve of \$38 million.

² Additional Tier One Capital is recognised as equity in the Banking Group's balance sheet.

Capital structure

Ordinary shares

In accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) ordinary share capital is classified as Common Equity Tier One Capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

On 22 May 2014, the Directors of the Bank resolved to repurchase 450 million ordinary shares from its immediate parent company, Westpac New Zealand Group Limited. Each share was repurchased for \$1 per share. These shares were immediately cancelled on repurchase.

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as other income when the asset is either derecognised or impaired.

Cash flow hedge reserve

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

Capital ratios

The Basel banking accords ('the Accords') have been developed and strengthened over time by the Basel Committee on Banking Supervision to enhance the banking regulatory framework. The Accords are made up of the different Basel frameworks with the latest being Basel III. Basel III builds on the Basel I and Basel II frameworks, and seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen banks' transparency. The Basel III framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

Notes to the financial statements

Note 14 Capital adequacy (continued)

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 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-Mar-14 Unaudited	31-Mar-13 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	12.2	11.9
Tier One Capital ratio	12.2	11.9
Total Capital ratio	12.2	13.0
Reserve Bank minimum ratios		
Common Equity Tier One Capital ratio	4.5	4.5
Tier One Capital ratio	6.0	6.0
Total Capital ratio	8.0	8.0
Buffer ratios		
Buffer ratio	4.2	5.0
Buffer requirement ¹	2.5	2.5

¹ From 1 January 2014, a prescribed minimum regulatory buffer ratio of 2.5% became effective.

The Banking Group Pillar 1 total capital requirement

\$ millions	The Banking Group		
	Total Exposure After Credit Risk Mitigation	31-Mar-14 (Unaudited) Risk-weighted Exposure or Implied Risk-weighted Exposure (scaled)	Total Capital Requirement
Credit risk			
Exposures subject to the internal ratings based approach	86,146	34,000	2,720
Equity exposures	83	293	24
Specialised lending subject to the slotting approach	5,163	5,007	400
Exposures subject to the standardised approach	3,607	1,220	97
Total credit risk¹	94,999	40,520	3,241
Operational risk	N/A	4,500	360
Market risk	N/A	921	74
Supervisory adjustment	N/A	-	-
Total	94,999	45,941	3,675

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-Mar-14 Unaudited	31-Mar-13 Unaudited
Internal capital allocation		
Other material risk	599	535



Note 14 Capital adequacy (continued)

Solo capital adequacy

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where the aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent.

The table below represents the solo capital adequacy calculation based on the Reserve Bank's Basel III framework as contained in the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

%	The Bank	
	31-Mar-14 Unaudited	31-Mar-13 Unaudited
Capital adequacy ratios		
Common Equity Tier One Capital ratio	10.1	9.9
Tier One Capital ratio	10.1	9.9
Total Capital ratio	10.1	10.9

Ultimate Parent Bank Group Basel III capital adequacy ratio

The table below represents the capital adequacy calculation for the Ultimate Parent Bank and the Ultimate Parent Bank together with its controlled entities ('**Ultimate Parent Bank Group**') based on the Australian Prudential Regulation Authority's ('**APRA**') application of the Basel III capital adequacy framework.

%	31-Mar-14 Unaudited	31-Mar-13 Unaudited
Ultimate Parent Bank Group^{1, 2}		
Common Equity Tier One Capital ratio	8.8	8.7
Additional Tier One Capital ratio	1.5	2.1
Tier One Capital ratio	10.3	10.8
Tier Two Capital ratio	1.8	1.7
Total Regulatory Capital ratio	12.1	12.5
Ultimate Parent Bank (Extended Licensed Entity)^{1, 2}		
Common Equity Tier One Capital ratio	8.9	8.8
Additional Tier One Capital ratio	1.7	2.2
Tier One Capital ratio	10.6	11.0
Tier Two Capital ratio	2.0	1.7
Total Regulatory Capital ratio	12.6	12.7

¹ The capital ratios represent information mandated by APRA.

² The capital ratios of the Ultimate Parent Bank Group and the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

The Ultimate Parent Bank 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 Basel III (internal models based approach). With this accreditation the Ultimate Parent Bank 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 Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Ultimate Parent Bank Group, and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2014. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Notes to the financial statements

Note 15 Risk management

15.1 Credit risk

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 35.3 Credit risk to the financial statements included in the Disclosure Statement for the year ended 30 September 2013 for further details). Enforceable legal documentation establishes the Banking Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the risk estimates applied. The value of the guarantee is not always separately recorded, and therefore, is not available for disclosure.

Definitions of PD, LGD, EAD and TCE

(i) Probability of Default ('PD')

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

(ii) Loss Given Default ('LGD')

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

(iii) Exposure at Default ('EAD')

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

(iv) Total Committed Exposure ('TCE')

TCE represents the sum of on-balance sheet and off-balance sheet exposures.

The Banking Group's credit risk exposures by asset class as at 31 March 2014 (Unaudited)

PD Band (%)	TCE \$ millions	EAD \$ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$ millions	Required Regulatory Capital \$ millions
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,341	2,002	0.18	21.59	8.49	170	14
0.25 to 1.0	23,244	22,274	0.56	21.59	19.98	4,450	356
1.0 to 2.5	16,043	15,607	1.39	21.59	37.66	5,877	469
2.5 to 10.0	4,022	3,969	4.74	21.59	78.03	3,097	248
10.0 to 99.99	-	-	-	-	-	-	-
Default	332	329	100.00	21.59	211.25	695	56
Total	45,982	44,181	1.95	21.59	32.34	14,289	1,143
Other retail (Credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	718	491	0.14	40.65	13.85	68	5
0.25 to 1.0	1,942	1,168	0.36	63.41	39.73	464	38
1.0 to 2.5	1,374	1,208	2.20	67.92	94.45	1,141	92
2.5 to 10.0	364	354	5.35	83.43	131.92	467	37
10.0 to 99.99	267	264	19.79	70.30	153.79	406	32
Default	20	19	100.00	70.37	131.58	25	2
Total	4,685	3,504	3.47	64.36	73.37	2,571	206
Small business							
0.00 to 0.10	184	129	0.03	73.76	7.75	10	1
0.10 to 0.25	-	-	-	-	-	-	-
0.25 to 1.0	606	603	0.54	22.85	18.24	110	9
1.0 to 2.5	1,499	1,478	1.63	20.27	29.97	443	35
2.5 to 10.0	226	227	5.08	21.15	33.48	76	6
10.0 to 99.99	24	25	17.09	24.54	52.00	13	1
Default	36	59	90.06	37.62	152.54	90	7
Total	2,575	2,521	3.82	24.15	29.43	742	59

¹ As required by the 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.



Note 15 Risk management (continued)

PD Grade	TCE \$ millions	EAD \$ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$ millions	Required Regulatory Capital \$ millions
Banking Group – Corporate/Business lending							
AAA	221	221	0.01	28.95	11.76	26	2
AA	1,644	1,641	0.03	40.12	12.98	213	17
A	3,892	3,863	0.08	50.14	26.35	1,018	81
BBB	6,259	6,071	0.21	45.20	49.00	2,975	238
BB	11,250	11,271	1.55	35.63	78.48	8,845	709
B	413	412	3.69	40.40	110.68	456	36
Other	961	960	28.14	43.54	228.96	2,198	176
Default	145	220	99.88	41.36	40.45	89	7
Total	24,785	24,659	2.82	40.94	64.16	15,820	1,266
Sovereign							
AAA	628	628	0.01	10.00	1.91	12	1
AA	4,333	4,254	0.02	7.22	1.81	77	6
A	1,010	1,010	0.06	21.07	9.60	97	8
BBB	7	7	0.13	19.11	14.29	1	-
BB	15	15	2.03	33.82	20.00	3	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	5,993	5,914	0.03	9.96	3.21	190	15
Bank							
AAA	-	-	-	-	-	-	-
AA	1,905	1,889	0.03	60.00	18.10	342	27
A	218	217	0.05	60.00	21.20	46	4
BBB	2	2	0.13	21.63	-	-	-
BB	-	-	-	-	-	-	-
B	1	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	2,126	2,108	0.03	59.96	18.41	388	31
Total credit risk exposures subject to the internal ratings based approach	86,146					34,000	2,720

¹ As required by the 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.

The following table summarises the Banking Group's credit risk exposure by asset class arising from undrawn commitments and other off-balance sheet exposures. These unaudited amounts are included in the previous tables.

\$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	7,345	5,543	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,795	1,614	-	-
Small business	976	899	-	-
Corporate/Business lending	8,497	8,289	-	-
Sovereign	1,226	1,149	-	-
Bank	38	24	-	-
Total	20,877	17,518	-	-

Notes to the financial statements

Note 15 Risk management (continued)

The Banking Group's equity as at 31 March 2014 (Unaudited)

Equity	TCE \$ millions	EAD \$ millions	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$ millions	Required Regulatory Capital \$ millions
Equity holdings (not deducted from capital) that are publicly traded	54.07	54.07	-	-	318.00	172	14
All other equity holdings (not deducted from capital)	28.48	28.48	-	-	424.00	121	10
Total	82.55					293	24

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 31 March 2014 (Unaudited)

Supervisory slotting grade	TCE \$ millions	EAD \$ millions	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$ millions	Required Regulatory Capital \$ millions
Strong	1,097	1,097	74.20	814	65
Good	2,732	2,732	95.39	2,606	208
Satisfactory	1,009	1,009	121.90	1,230	98
Weak	135	135	264.44	357	29
Default	190	232	-	-	-
Total	5,163	5,205	96.20	5,007	400

The following table summarises the Banking Group's Specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	TCE \$ millions	EAD \$ millions	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$ millions	Required Regulatory Capital \$ millions
Undrawn commitments and other off-balance sheet exposures	440	440	92.00	405	32



Note 15 Risk management (continued)

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2014 (Unaudited)

Calculation of on-balance sheet exposures	TCE \$ millions	EAD \$ millions	Average Risk Weight %	Risk-weighted Exposure \$ millions	Required Regulatory Capital \$ millions
Property, plant and equipment and other assets	254	254	100.00	254	20
Related parties	1,990	1,990	29.17	580	47
Total on-balance sheet exposures	2,244	2,244		834	67

Calculation of off-balance sheet exposures	Total Principal Amount \$ millions	Credit Equivalent Amount \$ millions	Average Risk Weight %	Risk-weighted Exposure \$ millions	Required Regulatory Capital \$ millions
Market related contracts subject to the standardised approach					
Foreign exchange contracts	10,176	1,196	20.00	239	19
Interest rate contracts	54,199	167	20.00	34	2
Credit value adjustment				44	4
Total market related contracts subject to the standardised approach	64,375	1,363		317	25
Total on-balance sheet and off-balance sheet credit exposures subject to the standardised approach	66,619	3,607		1,151	92
After adjustment for scalar¹				1,220	97

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.

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2014 (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 4 of Schedule 11 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.

LVR range (\$ millions)	The Banking Group 31-Mar-14 (Unaudited)					Total
	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	14,689	6,562	9,103	5,512	2,700	38,566
Undrawn commitments and other off-balance sheet exposures	4,489	1,127	1,132	418	179	7,345
Value of exposures	19,178	7,689	10,235	5,930	2,879	45,911

The Banking Group's reconciliation of residential mortgage-related amounts

The table below provides the Banking Group's reconciliation of amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

\$ millions	The Banking Group 31-Mar-14 Unaudited
Term loans – Housing (as disclosed in Note 5) and Residential mortgages – total gross loans (as disclosed in Note 6)	38,662
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(105)
Fair value hedge adjustments	9
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	7,345
Residential mortgages by LVR	45,911
<i>Reconciling item:</i>	
Accrued interest receivable	71
Residential mortgages – TCE (as disclosed in Credit risk exposures by asset class)	45,982

Notes to the financial statements

Note 15 Risk management (continued)

15.2 Operational risk

The Banking Group's operational risk capital requirement

\$ millions	The Banking Group 31-Mar-14 (Unaudited)	
	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Methodology implemented		
Advanced Measurement Approach		
Operational risk	4,500	360

15.3 Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) and is determined for the six-month period ended 31 March 2014. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six-month period ended 31 March 2014 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

The following table provides a summary of the Banking Group's capital charges by risk type as at the reporting date and the peak end-of-day capital charges by risk type for the six-month period ended 31 March 2014:

\$ millions	The Banking Group 31-Mar-14 (Unaudited)	
	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	784	63
Foreign currency risk	54	4
Equity risk	83	7
	921	74
Peak end-of-day		
Interest rate risk	1,264	101
Foreign currency risk	116	9
Equity risk	109	9



Note 15 Risk management (continued)**Interest rate sensitivity**

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2014. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

\$ millions	The Banking Group						Total
	31-Mar-14 (Unaudited)	31-Mar-14 (Unaudited)	31-Mar-14 (Unaudited)	31-Mar-14 (Unaudited)	31-Mar-14 (Unaudited)	31-Mar-14 (Unaudited)	
	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	
Financial assets							
Cash and balances with central banks	1,467	-	-	-	-	177	1,644
Due from other financial institutions	251	-	-	-	-	1	252
Derivative financial instruments	-	-	-	-	-	7	7
Trading securities	2,193	-	-	-	-	-	2,193
Available-for-sale securities	-	38	68	414	2,088	83	2,691
Loans	37,200	4,322	8,044	8,470	5,579	(455)	63,160
Due from related entities	1,924	-	-	-	-	18	1,942
Other assets	-	-	-	-	-	181	181
Total financial assets	43,035	4,360	8,112	8,884	7,667	12	72,070
Non-financial assets							1,078
Total assets							73,148
Financial liabilities							
Deposits	34,246	5,854	4,403	1,080	625	3,457	49,665
Derivative financial instruments	-	-	-	-	-	224	224
Debt issues	1,732	2,226	1,370	844	6,085	-	12,257
Other liabilities	-	-	-	-	-	442	442
Due to related entities	3,081	-	-	-	10	668	3,759
Total financial liabilities	39,059	8,080	5,773	1,924	6,720	4,791	66,347
Non-financial liabilities							164
Total liabilities							66,511
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	664	(38)	(65)	(393)	(168)	-	-

15.4 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-Mar-14 Unaudited
Cash and balances with central banks	1,644
Due from other financial institutions	40
Due from other financial institutions (included in due from related entities)	872
Supranational securities	405
NZ Government securities	2,220
NZ public securities	404
NZ corporate securities	2,019
Residential mortgage-backed securities	3,992
Total liquid assets	11,596

Notes to the financial statements

Note 15 Risk management (continued)

Liquidity analysis

The following liquidity analysis for financial assets and financial liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at the reporting date to the contractual maturity. The total balances in the table below may not agree to the balance sheet as this table incorporates all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

\$ millions	The Banking Group						Total
	31-Mar-14 (Unaudited)						
	On Demand	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Financial assets							
Cash and balances with central banks	1,644	-	-	-	-	-	1,644
Due from other financial institutions	212	40	-	-	-	-	252
Derivative financial instruments:							
Held for trading	3	-	-	-	-	-	3
Held for hedging purposes (net settled)	-	-	5	(10)	9	-	4
Trading securities	-	769	1,116	49	314	-	2,248
Available-for-sale securities	-	67	24	225	2,512	278	3,106
Loans	5,911	5,912	4,856	5,823	22,138	49,059	93,699
Due from related entities:							
Non-derivative balances	1,315	518	110	-	-	-	1,943
Other assets	-	39	-	-	-	-	39
Total undiscounted financial assets	9,085	7,345	6,111	6,087	24,973	49,337	102,938
Financial liabilities							
Deposits	23,877	4,976	9,078	10,589	1,846	-	50,366
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	12	13	11	49	6	91
Held for hedging purposes (gross settled):							
Cash outflow	-	5	30	120	3,438	-	3,593
Cash inflow	-	(1)	(57)	(7)	(3,094)	-	(3,159)
Debt issues	-	758	1,050	3,842	7,193	242	13,085
Other liabilities	-	118	-	-	-	-	118
Due to related entities:							
Non-derivative balances	505	428	60	76	2,318	-	3,387
Derivative financial instruments:							
Held for trading	205	-	-	-	-	-	205
Held for hedging purposes (net settled)	-	8	(10)	(21)	(47)	(1)	(71)
Held for hedging purposes (gross settled):							
Cash outflow	-	11	23	1,323	2,082	-	3,439
Cash inflow	-	-	-	(1,008)	(1,700)	-	(2,708)
Total undiscounted financial liabilities	24,587	6,315	10,187	14,925	12,085	247	68,346
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	194	-	-	-	-	-	194
Other commitments to provide financial services	19,881	-	-	-	-	-	19,881
Total undiscounted contingent liabilities and commitments	20,075	-	-	-	-	-	20,075



Note 16 Concentration of funding

\$ millions	The Banking Group 31-Mar-14 Unaudited
Funding consists of	
Deposits	49,665
Debt issues ¹	12,257
Due to related entities ²	3,091
Total funding	65,013
Analysis of funding by product	
Certificates of deposit	1,307
Savings accounts	13,402
Demand deposits	8,631
Other deposits	1,844
Term deposits	24,481
Debt issues	12,257
Subtotal	61,922
Due to related entities ²	3,091
Total funding	65,013
Analysis of funding by geographical areas¹	
New Zealand	53,741
Australia	528
United Kingdom	5,714
United States of America	2,879
Other	2,151
Total funding	65,013
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	238
Agriculture	1,139
Construction	1,221
Finance and insurance	21,501
Forestry and fishing	140
Government, administration and defence	1,683
Manufacturing	1,512
Mining	77
Property services and business services	4,403
Services	4,668
Trade	1,514
Transport and storage	438
Utilities	469
Households	19,291
Other	3,628
Subtotal	61,922
Due to related entities ²	3,091
Total funding	65,013

¹ The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programme is used as a proxy for the location of the original purchaser. Where the nature of the debt programme does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other.' These instruments may have subsequently been on-sold.

² Amounts due to related entities, as presented above, are in respect of intra group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

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

Notes to the financial statements

Note 17 Concentration of credit exposures

\$ millions	The Banking Group 31-Mar-14 Unaudited
On-balance sheet credit exposures consists of	
Cash and balances with central banks	1,644
Due from other financial institutions	252
Derivative financial instruments	7
Trading securities	2,193
Available-for-sale securities	2,691
Loans	63,160
Due from related entities	1,942
Other assets	181
Total on-balance sheet credit exposures	72,070
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	471
Agriculture	6,579
Construction	1,313
Finance and insurance	5,197
Forestry and fishing	349
Government, administration and defence	4,401
Manufacturing	2,254
Mining	391
Property	11,354
Property services and business services	1,846
Services	2,436
Trade	3,113
Transport and storage	1,189
Utilities	1,241
Retail lending	28,271
Other	139
Subtotal	70,544
Provisions for impairment charges on loans	(455)
Due from related entities	1,942
Other assets	39
Total on-balance sheet credit exposures	72,070
Off-balance sheet credit exposures	
Contingent liabilities and commitments	21,317
Total off-balance sheet credit exposures	21,317
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	88
Agriculture	740
Construction	434
Finance and insurance	2,001
Forestry and fishing	70
Government, administration and defence	973
Manufacturing	1,507
Mining	236
Property	1,639
Property services and business services	777
Services	1,176
Trade	2,055
Transport and storage	511
Utilities	1,461
Retail lending	7,597
Other	52
Total off-balance sheet credit exposures	21,317

ANZSIC have been used as the basis for disclosing industry sectors.



Note 17 Concentration of credit exposures (continued)

Analysis 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 March 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2014 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 March 2014 was two counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having an aggregate credit exposure between 10%-14% and the other having an aggregate credit exposure between 15%-19%; and
- for the three months ended 31 March 2014 was 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 18 Events after the reporting date

In April 2014, the Bank sold its remaining overseas equity securities to the Ultimate Parent Bank for \$50 million, realising a gain of \$41 million.

On 22 May 2014, the Directors of the Bank resolved to repurchase 450 million ordinary shares from its immediate parent company, Westpac New Zealand Group Limited. Each share was repurchased for \$1 per share. These shares were immediately cancelled on repurchase.



Independent Auditors' Review Report

To the shareholder of Westpac New Zealand Limited

Report on the Financial Statements

We have reviewed pages 5 to 31 of the half year Disclosure Statement of Westpac New Zealand Limited (the "Bank") and the entities it controlled at 31 March 2014 or from time to time during the period (the "Banking Group"), which consists of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 March 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the Banking Group.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the "Directors") are responsible for the preparation and presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and that present fairly the financial position of the Banking Group as at 31 March 2014, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Reviewers' Responsibility

We are responsible for reviewing the financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors.

We are responsible for reviewing the financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not in all material respects:

- (a) prepared in accordance with the Bank's Conditions of Registration;
- (b) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- (c) disclosed in accordance with Schedule 11 of the Order.

Independent auditors' review report (continued)



A review is limited primarily to enquiries of the Banking Group's personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Banking Group for the six months ended 31 March 2014 in accordance with the Review Engagement Standards issued in New Zealand.

We carry out other assignments on behalf of the Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other interests in the Banking Group or Westpac Banking Corporation Group.

Opinion

Based on our review nothing has come to our attention that causes us to believe that:

- (a) the financial statements on pages 5 to 31 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present fairly the financial position of the Banking Group as at 31 March 2014 and its financial performance and cash flows for the six months ended on that date;
- (b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- (c) the supplementary information relating to capital adequacy prescribed by Schedule 11 of the Order, is not, in all material respects:
 - (i) prepared in accordance with the Bank's Conditions of Registration;
 - (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
 - (iii) disclosed in accordance with Schedule 11 of the Order.

Restriction on Use of Our Report

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', is written over a faint, larger version of the PwC logo.

22 May 2014
Chartered Accountants

Auckland



