Westpac New Zealand Limited

European Investor Roadshow

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We use words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate', 'believe', or other similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon Westpac Securities NZ Limited, and/or Westpac New Zealand Limited. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from the expectations described in this presentation. Factors that may impact on the forward-looking statements made include those described in the section entitled "Risk factors" in the Management Report in the Westpac Securities NZ Limited Financial Statements for the year ended 31 March 2018. When relying on forward-looking statements to make decisions with respect to Westpac Securities NZ Limited and/or Westpac New Zealand Limited, investors and others should carefully consider such factors and other uncertainties and events. We are under no obligation, and do not intend, to update any forward-looking statements contained in this presentation.

All amounts are in New Zealand dollars unless otherwise indicated. All financial data in this presentation is as at 31 March 2018 unless otherwise stated.

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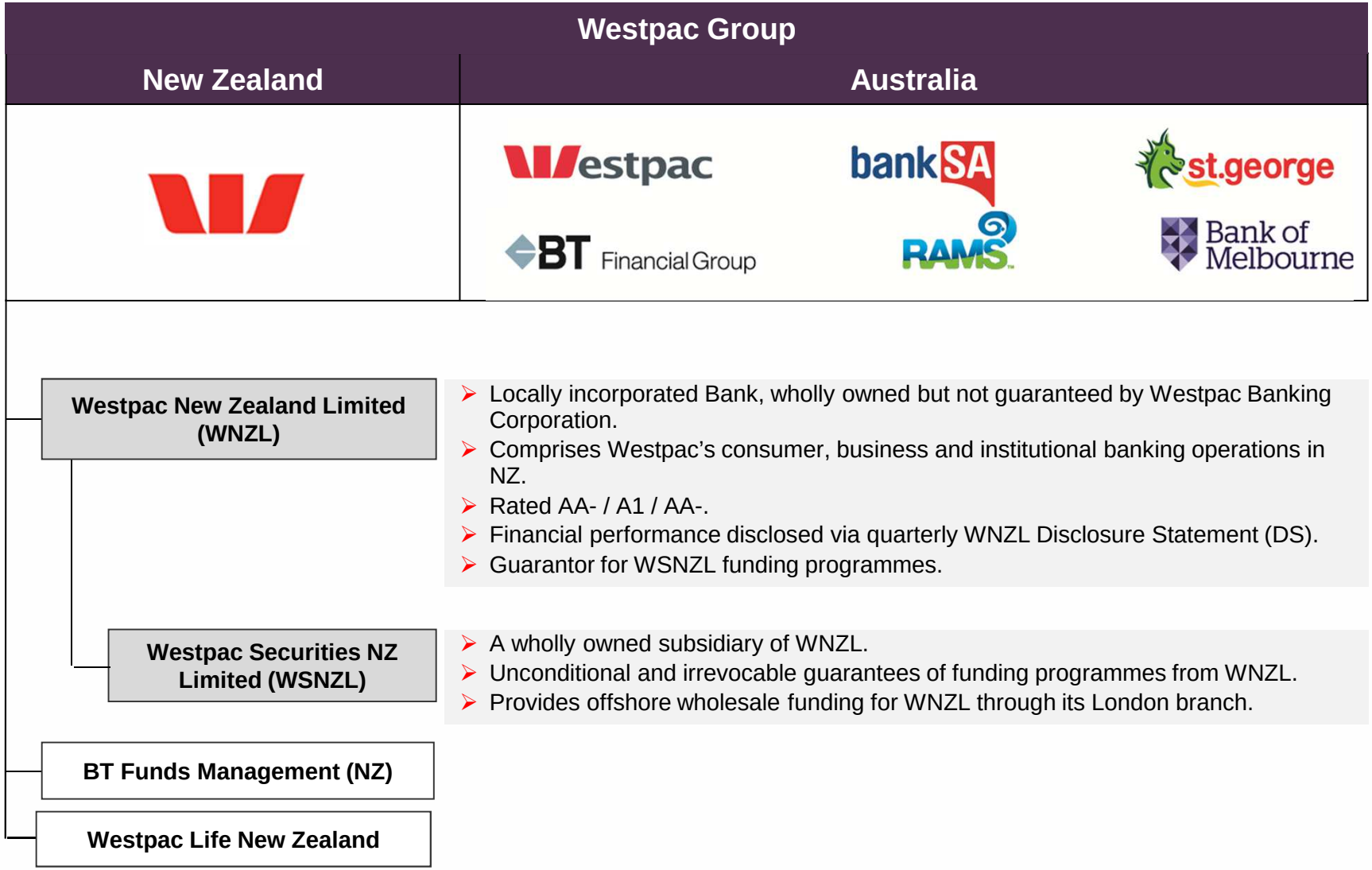
An important part of the Westpac Group



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WNZL Overview

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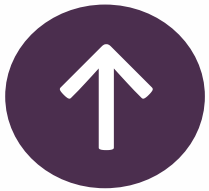
Performance & Growth 1H18 vs PCP

$640m

15%
Core Earnings

2.06%



0.10%
Net Interest Margin

41.8%

3.6%
Cost/Income Ratio

Customer deposits

UP 8%

Customer lending

UP 3%

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Customers & communities

loaned to help businesses grow

42% existing customers
58% new customers

750,000
customers
contacted through

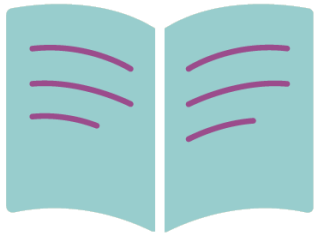
Value Me

MORTGAGES

New Lending

11,500 customers

1 in 5 customers
is a first home buyer



1,340
Managing Your Money
Workshop participants

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Environmental, social and governance

Dow Jones Sustainability Indexes

Dow Jones Sustainability Index recognised Westpac Banking Corporation as the **world's most sustainable bank** for the fourth year in a row.

$1.7b

Lending to climate change solutions and committed to 2020 target of $2.0bn.

$3.1m

Invested in community partnerships and sponsorship.

51.5% Women in Leadership

Continued focus on creating an inclusive culture and ensuring equal opportunities for all our employees.

RAINBOW TICK CERTIFIED

ALZHEIMERS NEW ZEALAND

UN WOMEN

DVFREE™ Making the workplace domestic violence free

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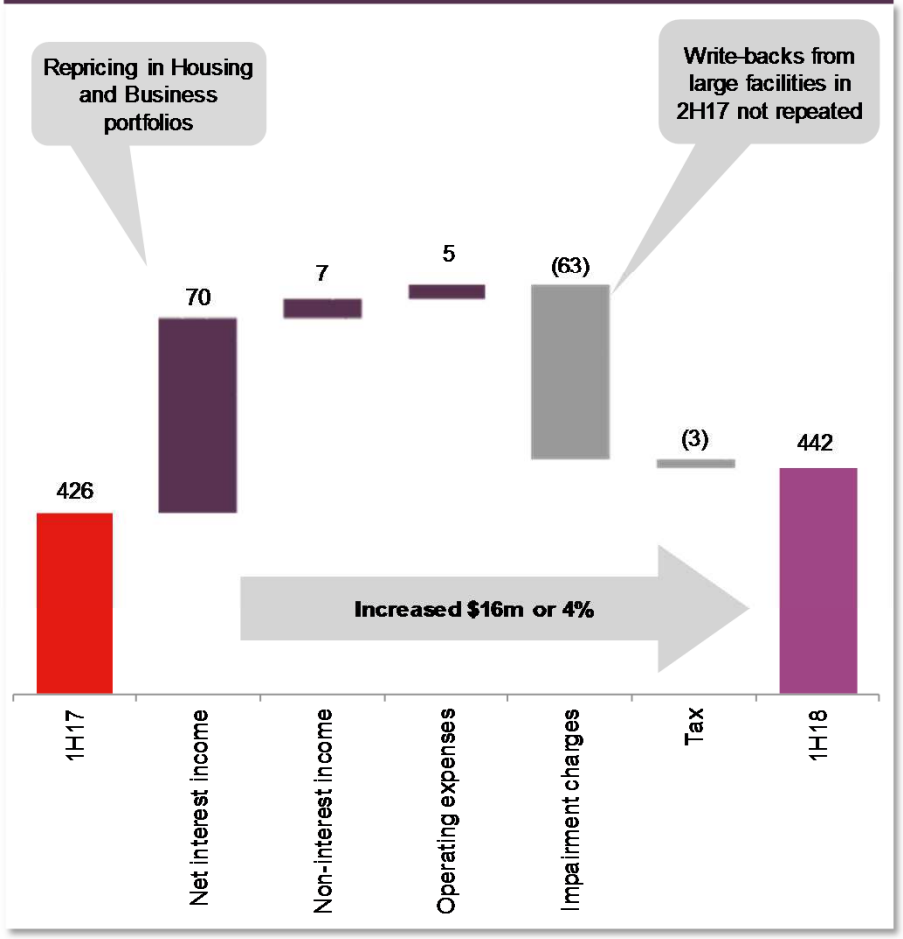
WNZL transformation delivering

Net Profit After Tax (NZ$m)



Key financial metrics

	1H17	2H17	1H18	Change on 1H17
Revenue (NZ$m)	1,023	1,123	**1,100**	8%
Net interest margin (%)	1.96	2.09	**2.06**	10bps
Expense to income (%)	45.5	43.5	**41.8**	(364bps)
Customer deposit to loan ratio (%)	74.2	75.6	**77.9**	363bps
Stressed assets to TCE (%)	2.41	2.06	**1.86**	(55bps)

Key operating metrics

	1H17	2H17	1H18	Change on 1H17
Customers (#m)	1.36	1.35	**1.36**	-
Branches	170	169	**164**	(6)
Consumer NPS	6	2	**9**	+3
Business NPS	10	5	**17**	+7
Agri NPS	43	54	**52**	+9
Service quality – complaints (000's)	11.4	9.6	**8.5**	(25%)

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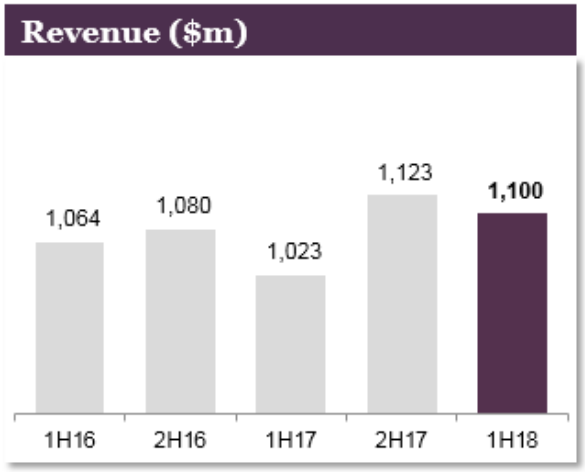
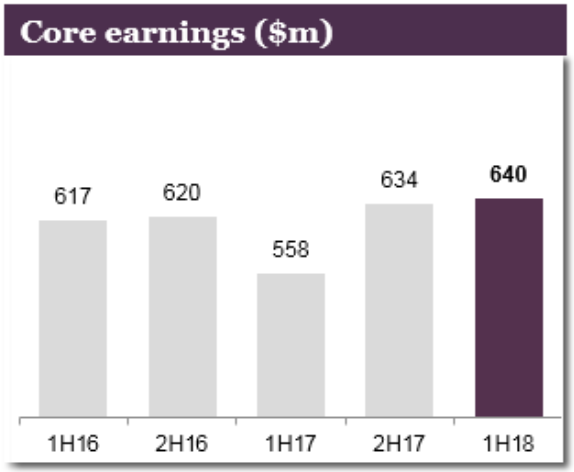
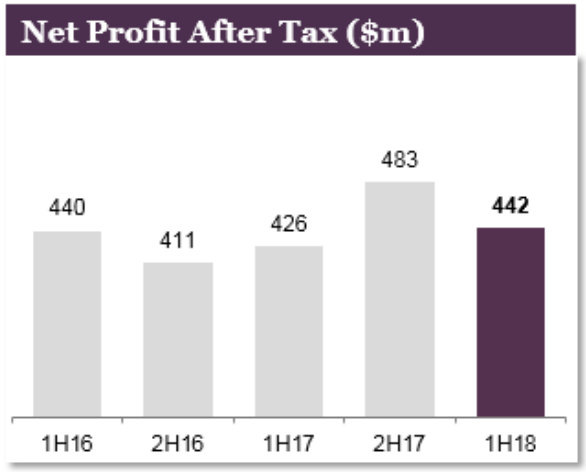
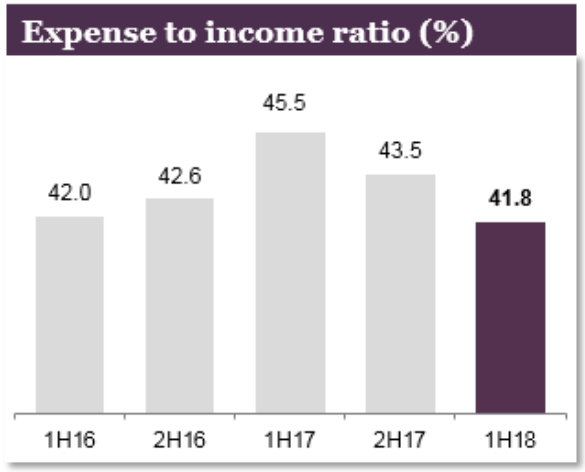
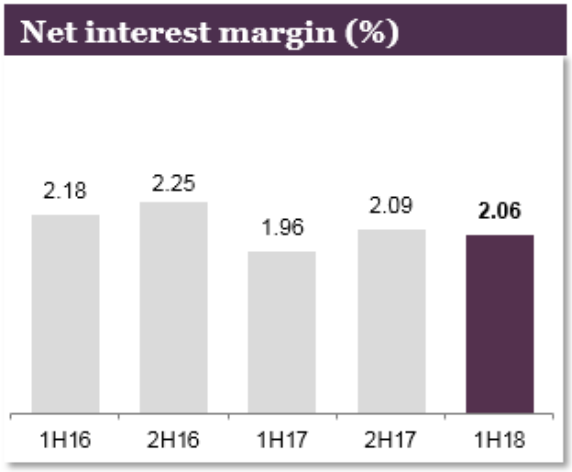
Results at a glance

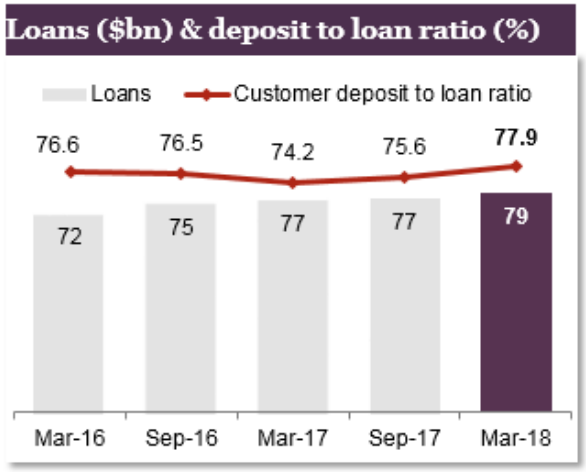












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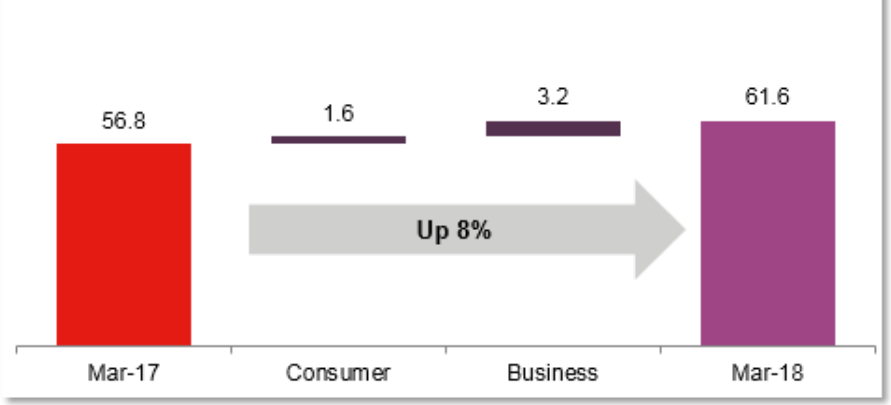
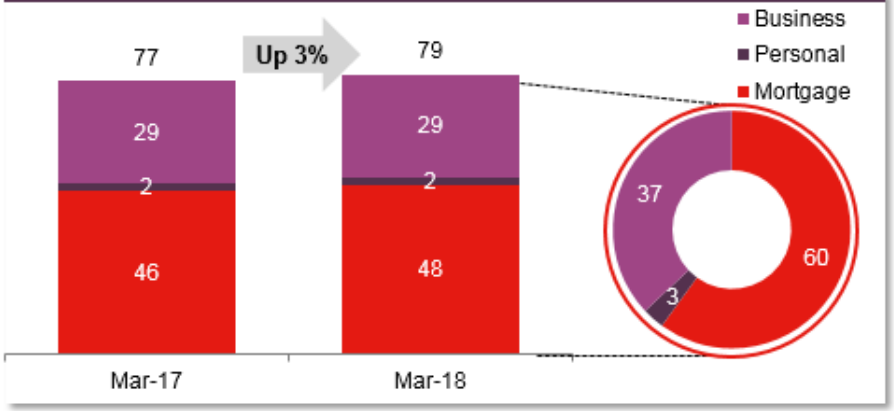
Balance Sheet drivers

Net loans (NZ$bn)

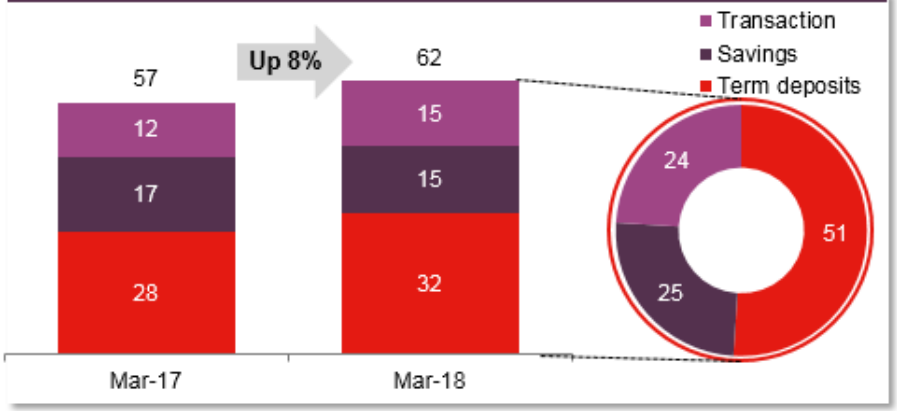
Deposits (NZ$bn)



Customer loans (NZ$bn) and % of total



Customer deposits (NZ$bn) and % of total



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New Zealand Coalition Government

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NZ Government - Centre left coalition

- NZ Labour (Centre Left) lead government in coalition with NZ First (Centre Right).
- Supported (supply and confidence) by NZ Green Party (Environmentally Left).
- Coalition holds 55 seats + NZ Green (8 seats) gives Government 63 seats against Opposition (National Party) of 56 seats.

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Significant policies and initiatives

- Review and reform the Reserve Bank Act.
- Around $8.4bn of additional spending over the next four years focused on health and education.
- Establish a $1 billion Regional Development Fund.
- Making the first year of tertiary education or training free from 1 January 2018.
- Minimum wage to $16.50 an hour in 2018 and $20 in 2020.
- Introduce a Zero-Carbon Act with the goal of zero emissions by 2050.
- Planting a billion trees over the next ten years.
- Establish a Tax Working Group.
- Reduce net immigration by 20,000-30,000 a year. Prime Minister Jacinda Ardern later said there would be no immediate cut to immigration.
- Restrictions on offshore buyers of residential property.

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First Budget – No Surprises

- Met the fiscal responsibility test.
- Net debt still in line for >20% GDP by 2022.
- Assumption is 3% GDP annual growth.
- Higher taxation receipts have been offset by higher spending.
- Confirmation of removal of previous government planned income tax cuts.
- Budget spend aimed primarily at social conscience.
- Health (+$3.2b) and Education (+$1.6b) big winners.
- Build 6,000 social houses.
- Limited market reaction, currency flat bond yield slightly higher on more supply.

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Revised Reserve Bank New Zealand Act

- Finance Minister Grant Robertson and incoming Reserve Bank Governor Adrian Orr signed a new Policy Targets Agreement (PTA) setting out specific targets for maintaining price stability and a requirement for employment outcomes to be considered in the conduct of monetary policy.
- The agreement continues the requirement for the Reserve Bank to keep future annual CPI inflation between 1 and 3 percent over the medium-term.
- The Government has agreed a range of seven voting members for a Monetary Policy Committee (MPC) for decision-making.
  - 4 Reserve Bank internal staff, 3 external members.
  - RBNZ Governor will chair.
- Phase 2 of the Review is being scoped. Focus on the RBNZ financial stability role and broader governance reform. Announcements on the final scope will be made by mid-2018.

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New Zealand Economic Outlook

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New Zealand Economy

- Westpac forecast economic growth above 3% GDP over next 2 years.
- Strong employment outlook.
- Growing government sector with infrastructure and social spend balanced against responsible fiscal management.
- Economy experiencing growth on back of:
  - Construction activity associated with growing population.
  - Price recovery for key NZ exports including dairy.
  - Tourism now NZ's major export earner.
- Interest rate outlook flat.
- Currency outlook modest falls but relative stability.
- High household debt but manageable serviceability.
- Housing shortage expected to prevail for some time.

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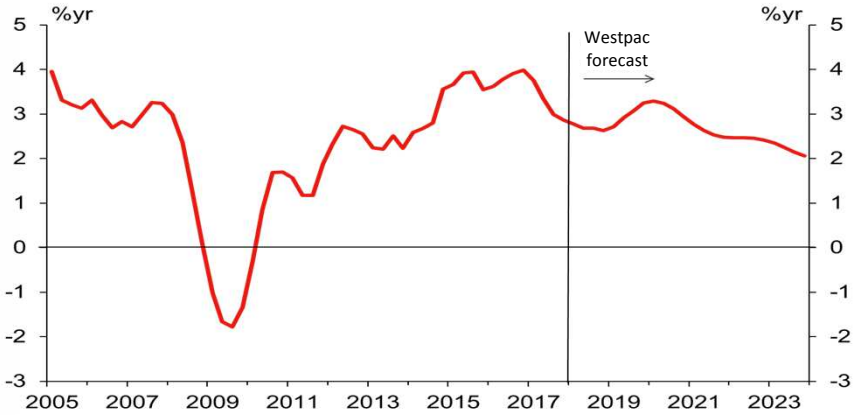
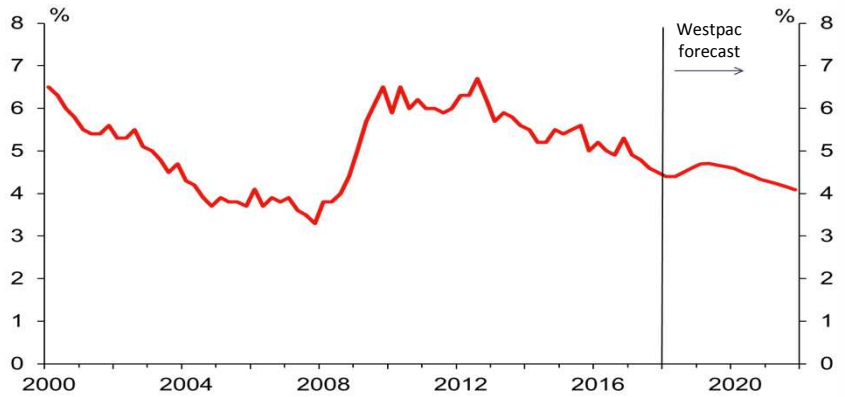
New Zealand Economy

GDP growth (%)



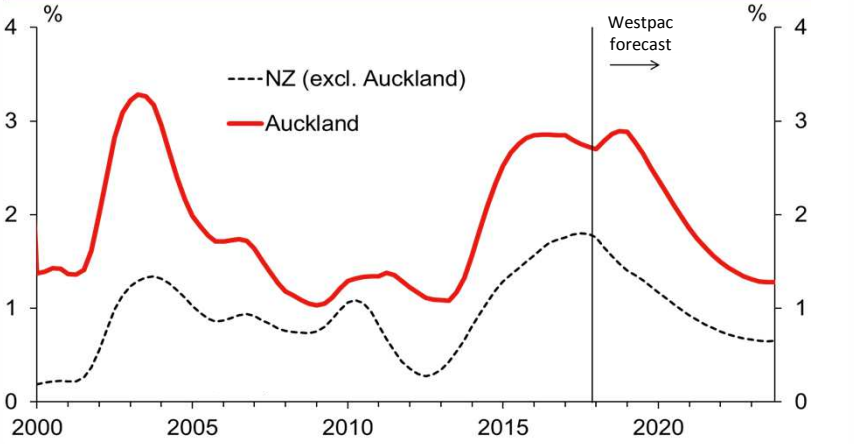
Source: Statistics NZ, Westpac Economics

New Zealand unemployment rate (%)



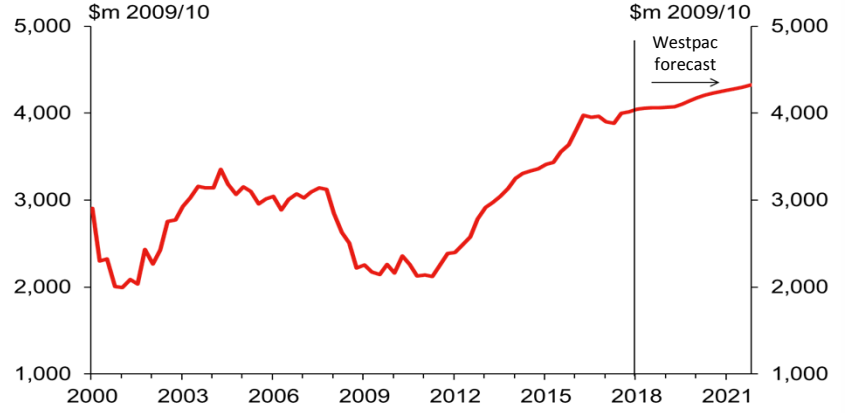
Source: Statistics NZ, Westpac Economics

Population growth (%)



Source: Statistics NZ, Westpac Economics

New Zealand residential investment



Source: Statistics NZ, Westpac Economics

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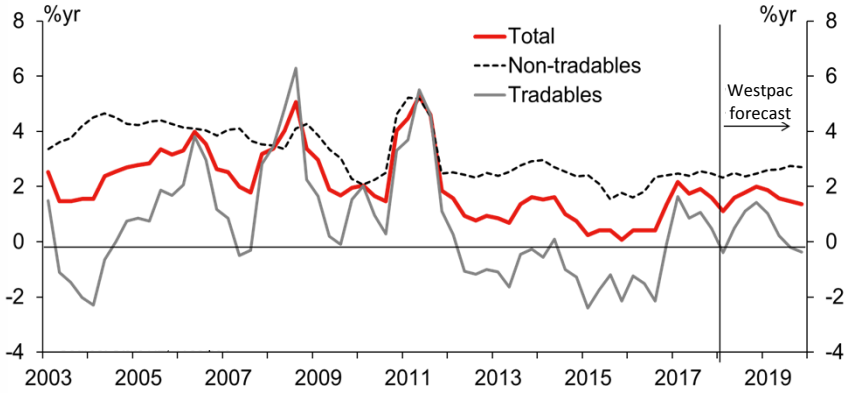
Solid growth with benign inflation outlook

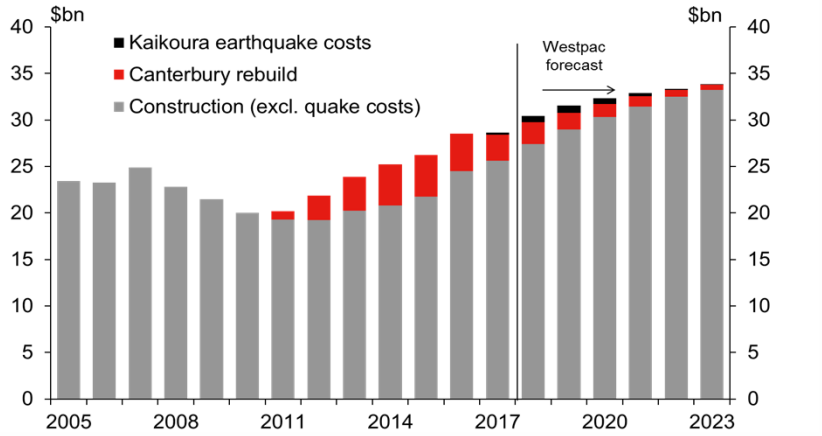
- While inflation has picked up, imported inflation remains low.
- There is a strong outlook for residential construction centred on Auckland, and a pipeline of non-residential construction work, including infrastructure spending both in Auckland and the regions.
- Spending on the Canterbury and Kaikoura Earthquakes no longer a material component of construction.
- Government consumption is forecast to grow as a portion of NZ GDP. Likely to result in $8bn of NZ Government bonds to be issued over next 3 years.

Inflation



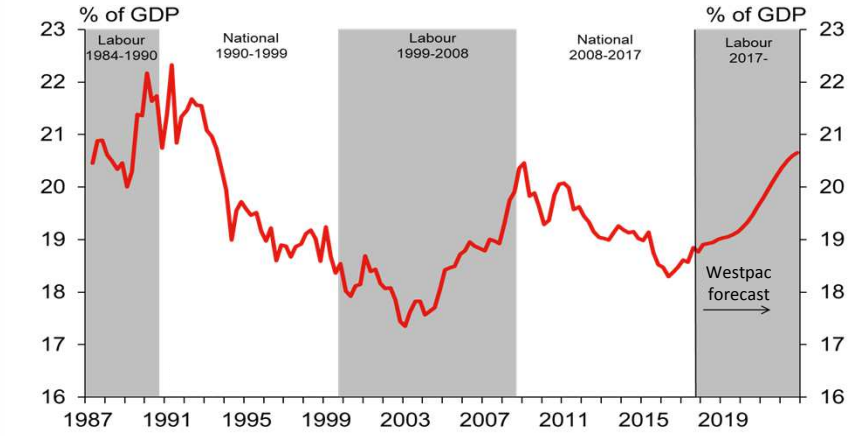
Source: Statistics NZ, Westpac Economics

Construction spending (annual)



Source: Statistics NZ, Westpac Economics

Government Consumption % of GDP



Source: Treasury, Westpac Economics

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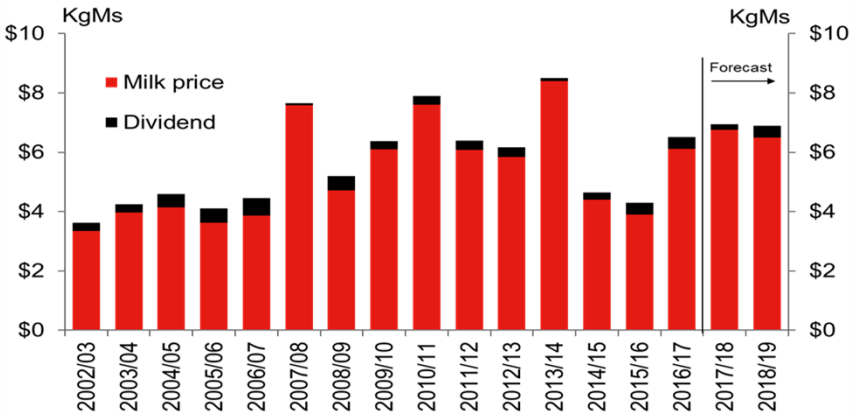
Conditions are improving for the dairy sector

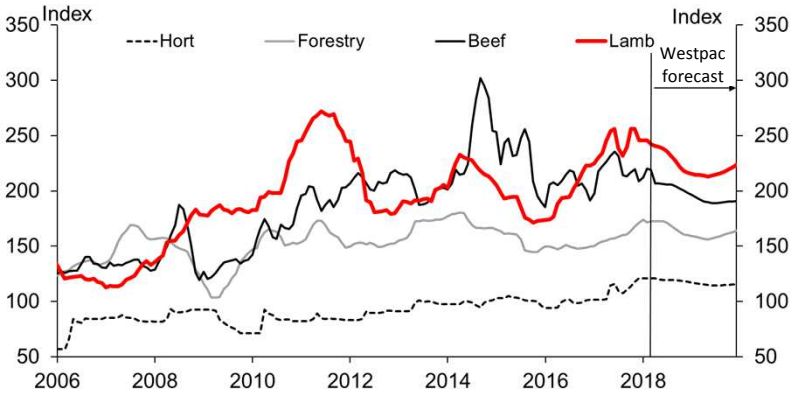
- Global dairy prices recovered sharply through H2 2016, and in January were 50% higher than in the middle of last year.
- Fundamentals have shifted in favour of dairy producers. The previous period of low prices has led to milk supply contracting in key dairy export regions, including Europe, New Zealand and Australia. Demand, especially from China, has also improved.
- Westpac Economics has upgraded our forecast for New Zealand's farm gate milk price to $6.20 for the current season. However, while this is a significant improvement, it will take some time for farmers to repair their balance sheets following two seasons of very low prices.

Dairy payout and dividend



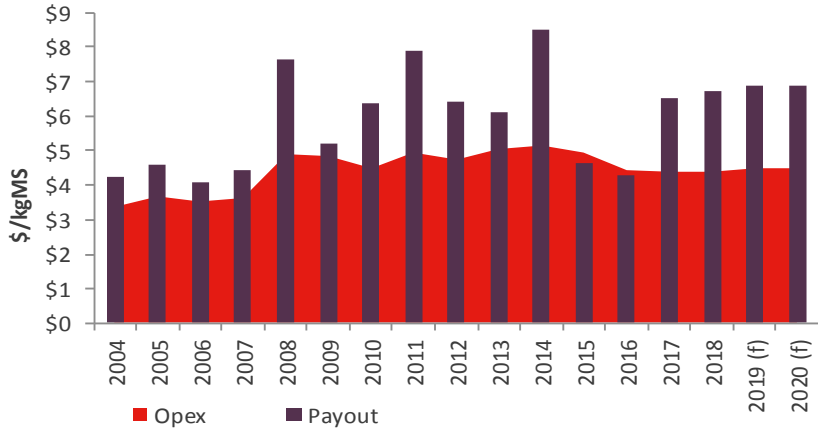
Source: Fonterra, Westpac Economics

NZ export commodity price index (NZD)



Source: ANZ, Westpac Economics

Break-even dairy payout



Source: DairyNZ, Westpac Economics

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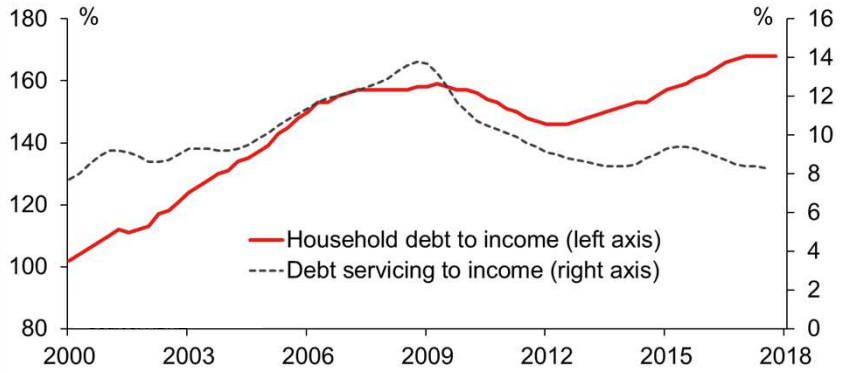
House sales have slowed

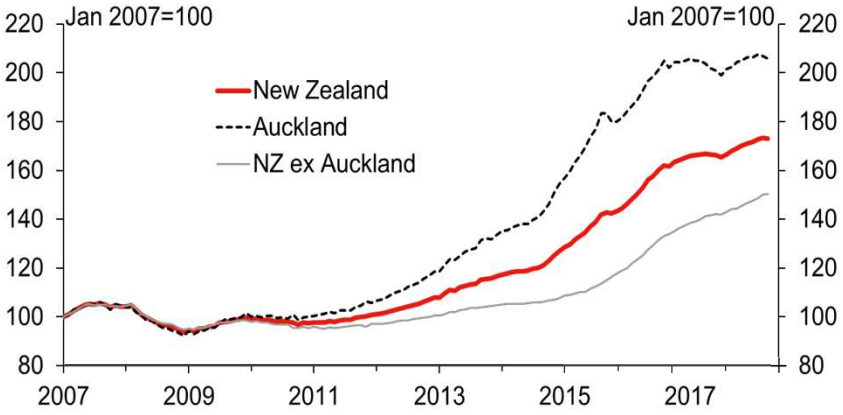
- House prices rose rapidly from 2014 to 2016. Auckland prices have peaked and the market has cooled a little but maintained current levels.
- Significant changes in housing market policy are planned which will have a large impact on property investors. These changes will weigh on house price growth over the next few years.
- The RBNZ eased lending restrictions in early 2018. If the housing market continues to cool, restrictions could be eased further.

Household debt statistics



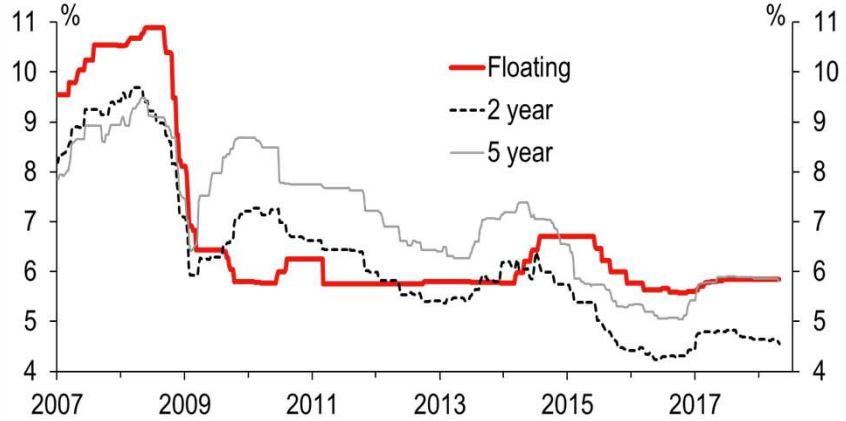
Source: RBNZ

New Zealand house prices by region (index)



Source: REINZ

Published benchmark mortgage rates



Source: RBNZ

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Funding, Liquidity and Capital Management

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WNZL Funding and Liquidity position remain strong

Funding overview

- WNZL's customer deposit to loan ratio was 77.9% at 31 March 2018.
- Both BS13 and APS210 lenses are applied to the deposit book – active effort to attract deposits that represent stable long term funding under both prudential standards.
- WNZL issued NZD550m term wholesale funding FY18 to date.
- Core Funding Ratio (CFR) was 84.3% at 31 March 2018.

Future plans

- Maintain limited call on short term wholesale markets.
- Wholesale funding strategy remains that of consistent issuance into established markets with diversification within current geographies.

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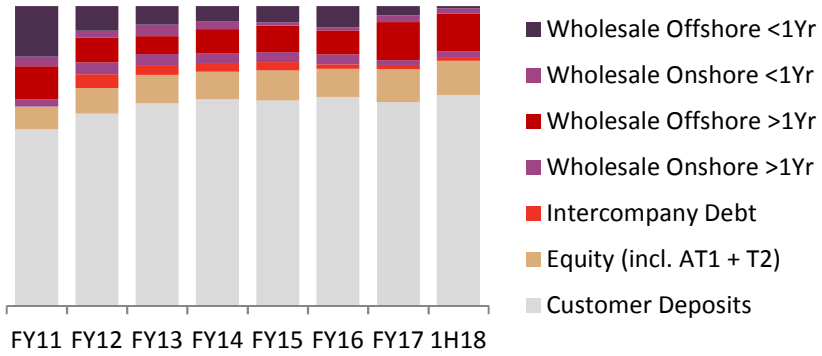
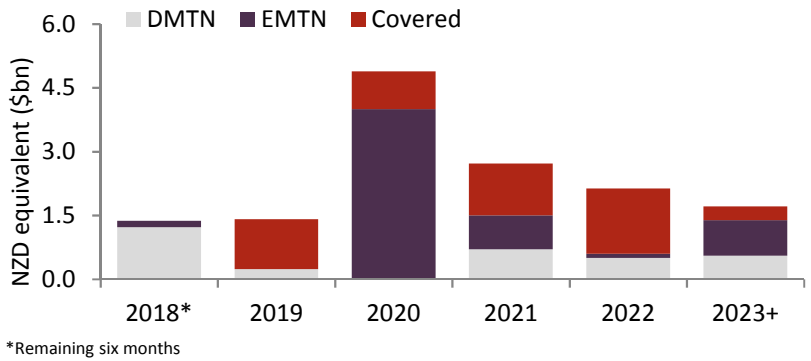
Targeting a sustainable wholesale funding profile

Funding composition

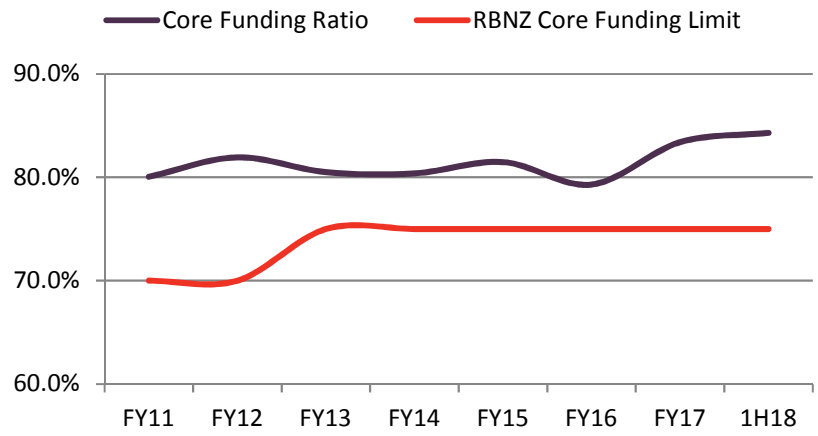


Term maturities by financial year ($bn)



*Remaining six months

Core funding ratio (%)



Commentary

- Reduced reliance on short term funding.
- Term maturities well spread for manageable annual refinancing task.
- Core Funding Ratio comfortably above the RBNZ minimum of 75%.

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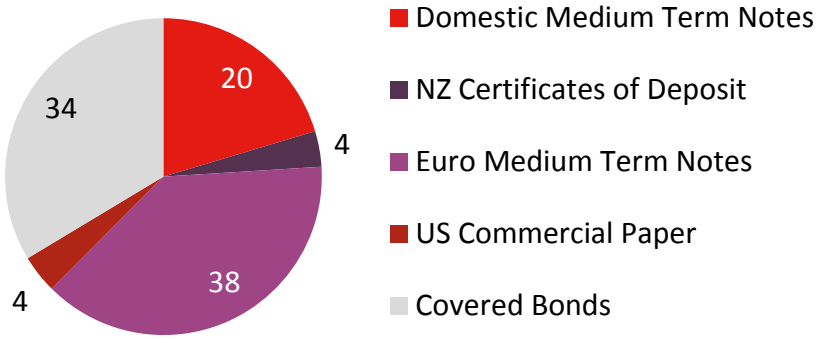
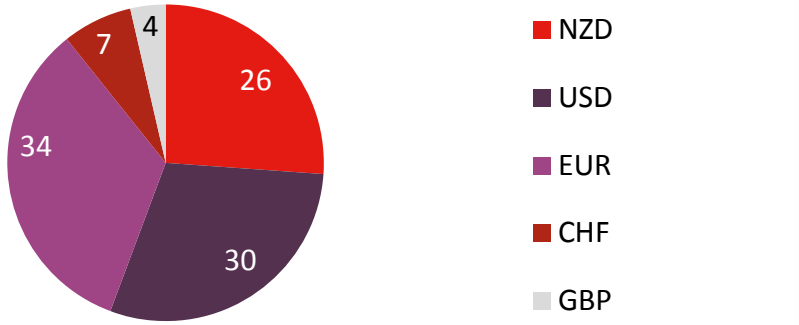
Well balanced and diversified funding

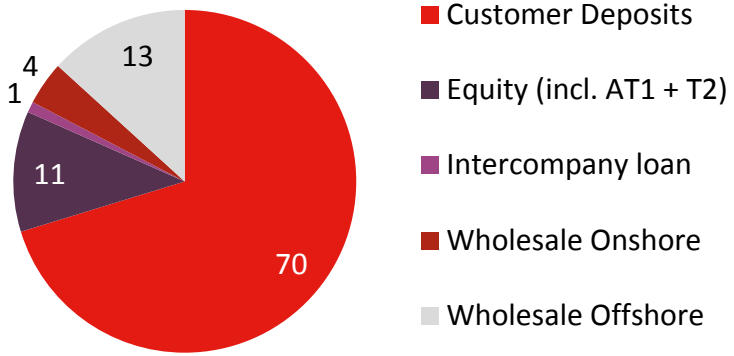
Wholesale funding (%)



Wholesale funding by currency (%)



Funding mix (%)



Commentary

- Funding composition well balanced between domestic and offshore wholesale programmes.
- Lower reliance on US Commercial Paper.
- Focus for wholesale funding will be consistent issuance into established markets with diversification within current geographies.

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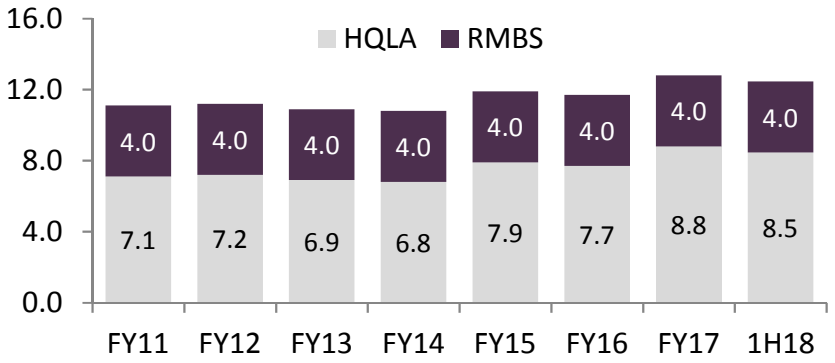
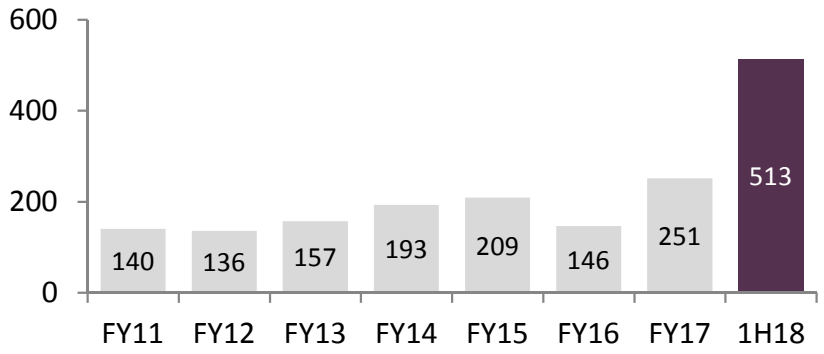
Stable and high quality liquid assets

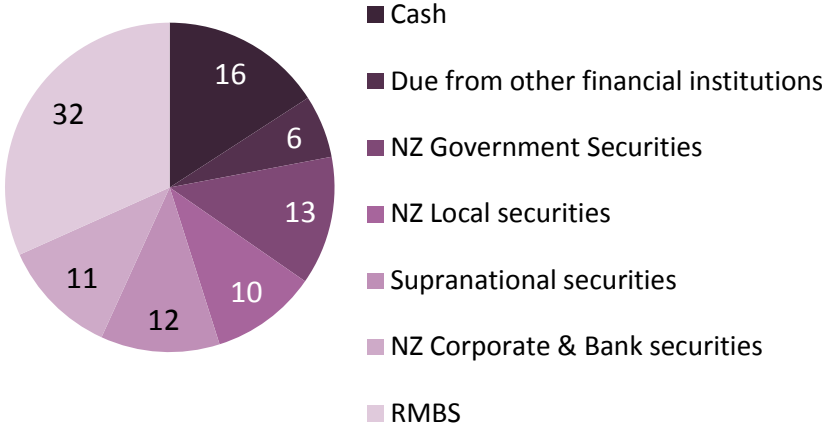
Liquid assets ($bn)



Liquid assets as % short term funding (%)



Liquid assets composition (%)



Commentary

- High quality, diversified portfolio of RBNZ repo eligible liquid assets.
- The core liquid asset portfolio has remained relatively stable in recent years.
- Liquid assets cover all maturing offshore debt.

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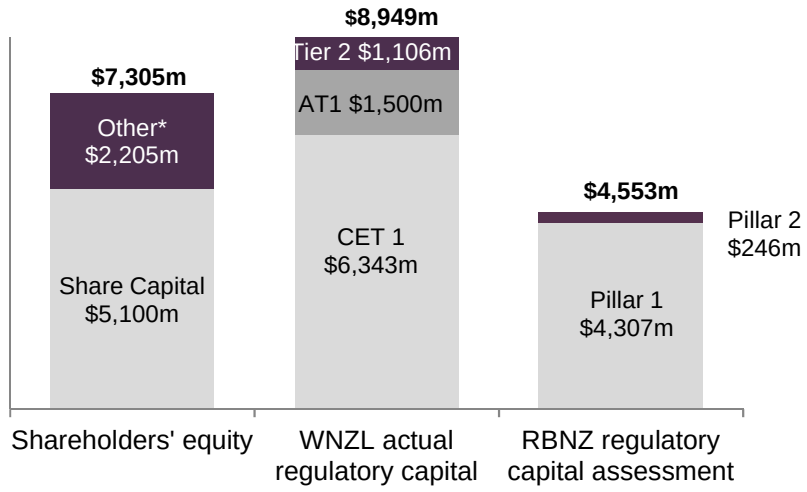
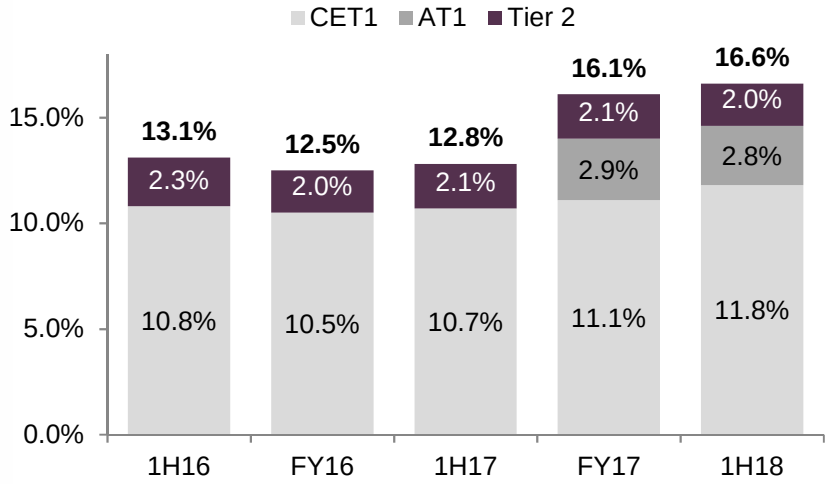
Strong capital position

Capital adequacy ratios (RBNZ basis)	Mar-18	WNZL Target levels	Regulatory minimum	Headroom to regulatory minimum
CET1 Capital (incl. Capital Conservation Buffer (**CCB**)	11.8%	9.5%	9.0%	2.8%
Tier One Capital (incl. CCB)	14.6%	12.0%	10.5%	4.1%
Total Regulatory Capital (incl. CCB)	16.6%	15.1.%	12.5%	4.1%
Buffer Ratio	5.3%	3.0%	2.5%	2.8%

WNZL capital ($m) as at 31 March 2018



WNZL Regulatory capital ratios (%)



*Other: Retained profits of $2,255m, AFS reserve of $10m and Cash Flow Hedge reserve of ($60m)

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WNZL Loan Portfolios

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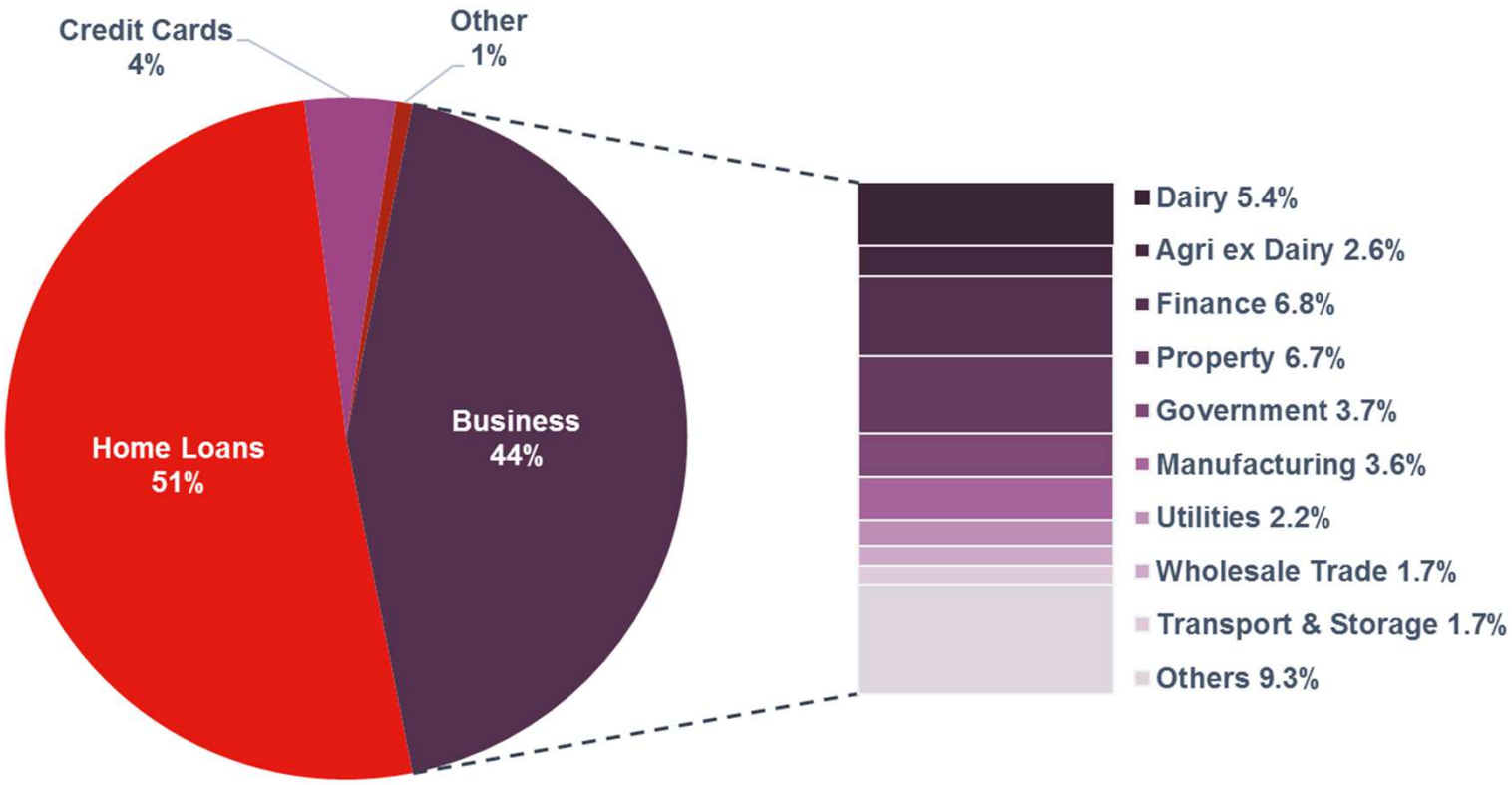
WNZL lending portfolio diversified

Lending by industry (%)



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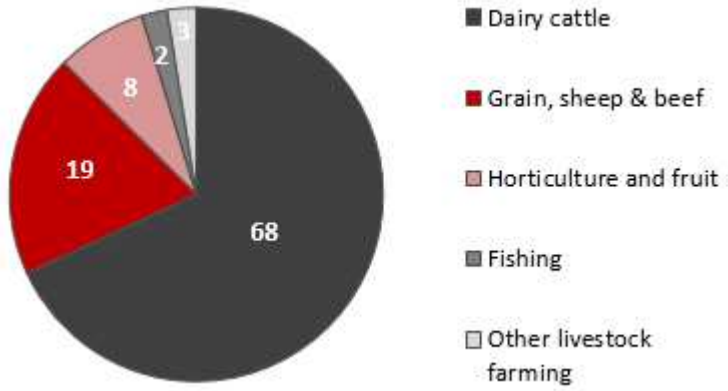
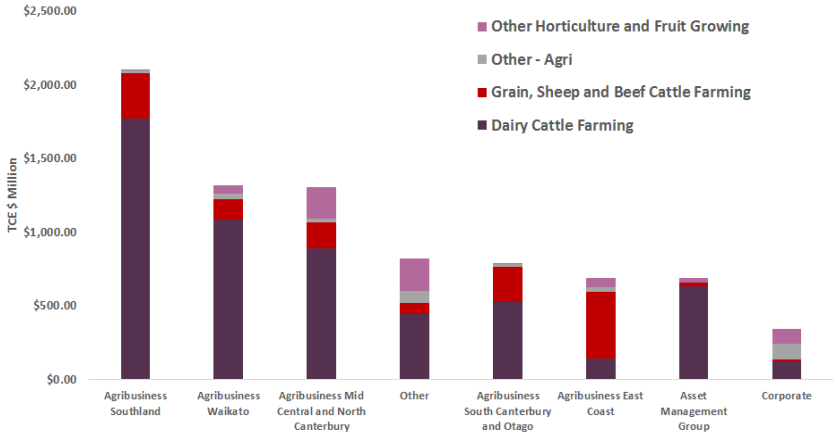
Agribusiness overview

Agribusiness portfolio TCE by sector (%)



Agribusiness portfolio by Region



Commentary

- Improved dairy payouts are improving farmers' financial profiles, and resultant dairy portfolio risk grade profile.
- Impairments remain low, however dairy land value risks remain.
- Fonterra's dairy pay-out forecast for the 2017/18 season of $6.55 per kg of milk solids, supports continued improvement in dairy stressed assets and portfolio health over FY18.

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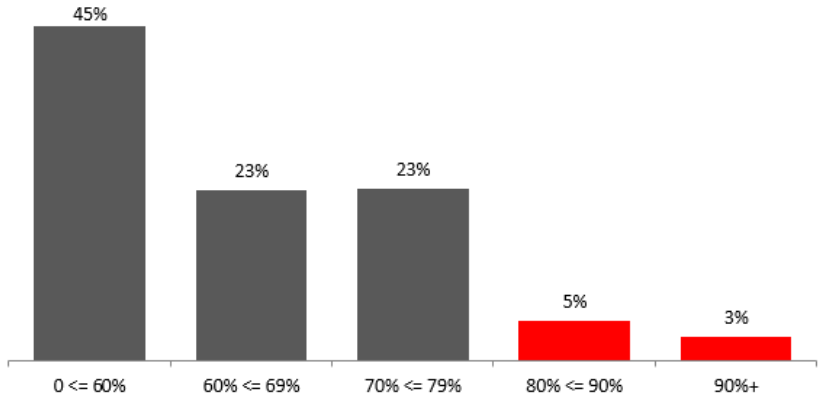
Home Loan portfolio composition

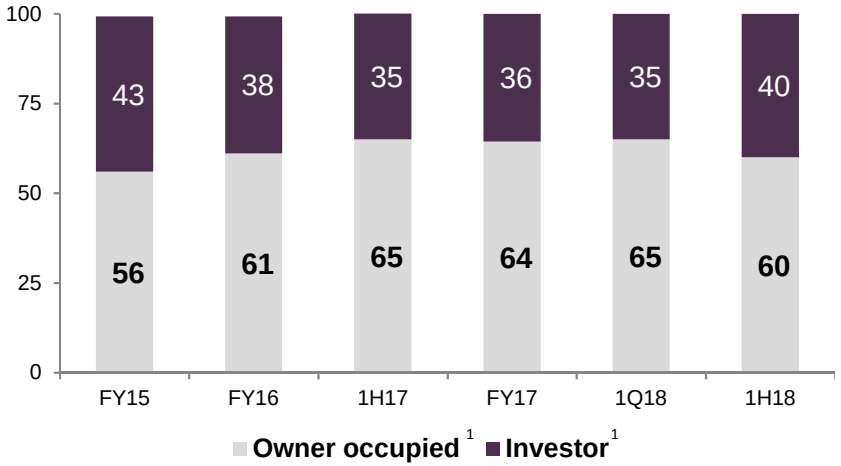
Key Statistics – as at 31 March 2018

Number of Home Loans	364k
Total Home Loan Portfolio	$48bn
YTD Mortgage growth rate annualise	3.72%
Portfolio > 80% LVR	8.7%
Average balance	$131k

Mortgage portfolio – LVR profile (%)



Investor vs owner occupied (%) of new flows



Commentary

- WNZL continues to manage mortgage flows against LVR appetite.
- Delinquencies are tracking marginally higher than 2017 (record low point) which indicates a small incremental movement off the bottom of the cycle driven by a slower housing market (given otherwise stable interest rates and unemployment).

1. 'Investor' lending provided for the purchase of, and/or secured by, residential investment property. Residential investment property is property that is not owner-occupied, or for the owners' exclusive use (such as a holiday house). 'Owner Occupied' includes all other residentially secured lending not classified as an Investment Property Lending.

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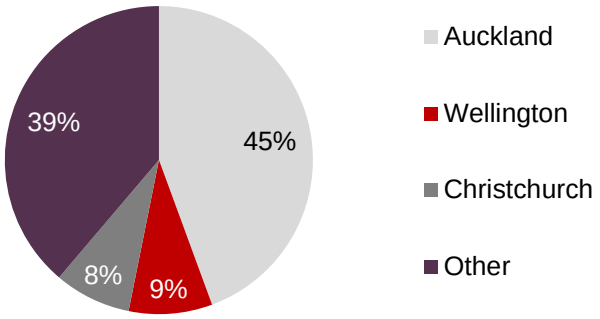
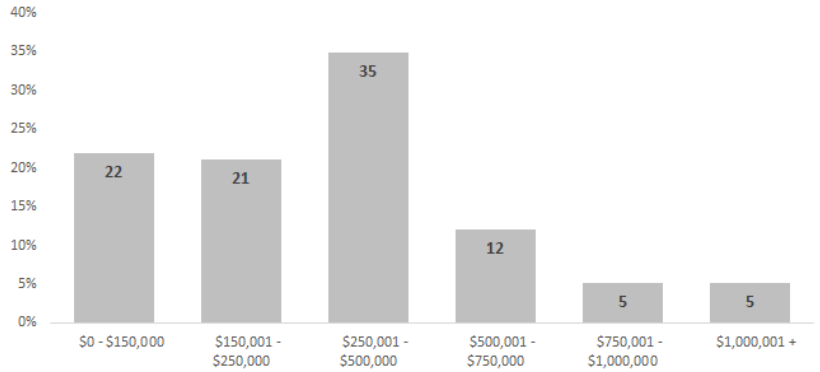
Mortgage portfolio composition

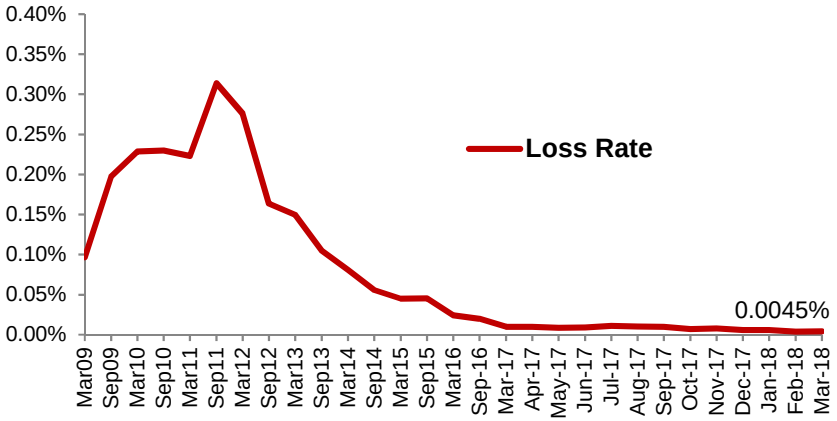
Regional profile (%)



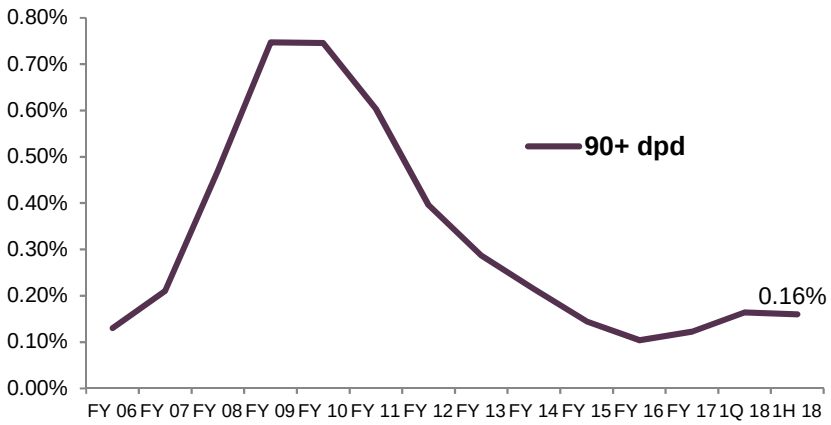
Mortgage portfolio – Approved loan amount (%)



Mortgage portfolio loss rates (%)



90+ delinquencies (%)



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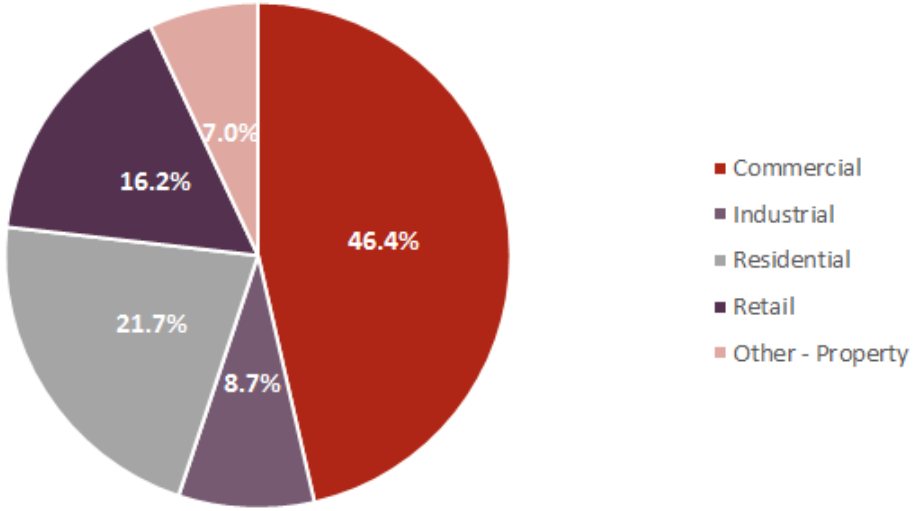
Commercial Property portfolio

Commercial Property by Market Segment (%)



Commentary

- Total portfolio committed exposure (TCE) at Mar 18 has increased 1.64% since FY17 and represents 6.9% ($7.5b) of WNZL's TCE.
- Development/Investment portfolio mix has shifted from 21.1%/79.9% in FY17 to 17.8%/82.2% as at Mar 18, following repayment of some completed development exposures and new investment lending.
- Credit quality remains sound with low levels of stressed assets (3.3% at Mar 18) and impairments (1.2% at Mar 18), largely reflecting the stage of the property cycle.
- WNZL is not currently experiencing delays or settlement defaults by purchasers of apartments/residential houses.

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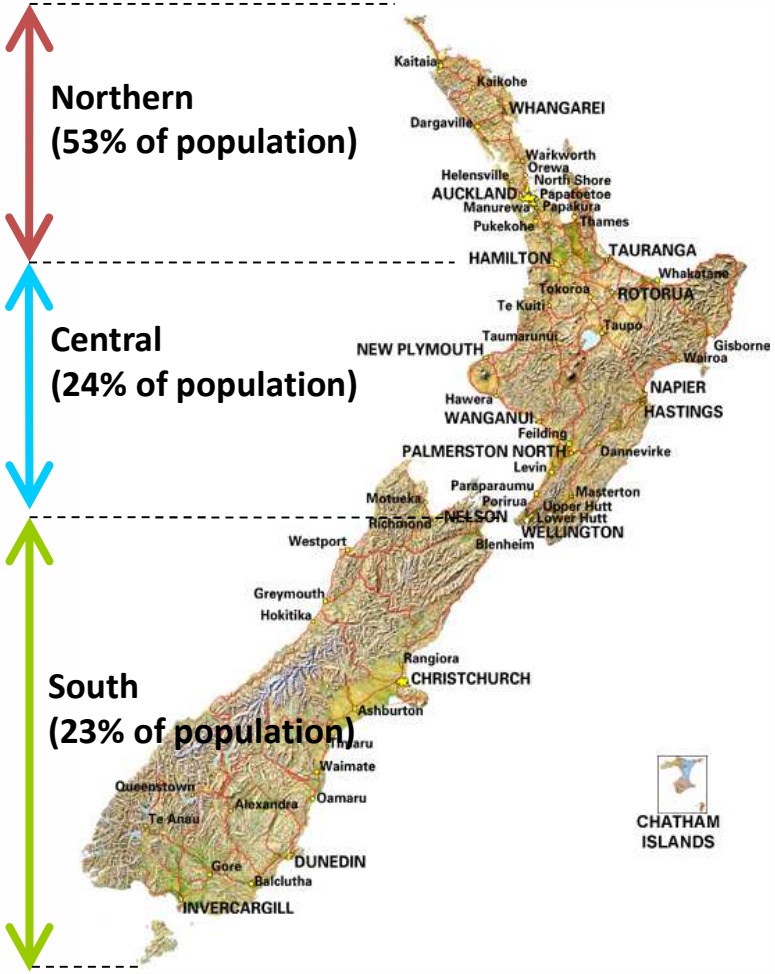
Appendix

New Zealand Economy - population distribution

Region	Population
Northland	151,689
Auckland	1,415,689
Waikato	403,639
Bay of Plenty	267,741
Gisborne	46,653
Hawke's Bay	151,179
Taranaki	109,608
Manawatu-Wanganui	222,689
Wellington	471,315
Tasman	47,157
Nelson	46,437
Marlborough	43,416
West Coast	32,148
Canterbury	539,433
Otago	202,470
Southland	93,339
Total	**4,244,602**



Source: Statistics NZ, 2013 Census

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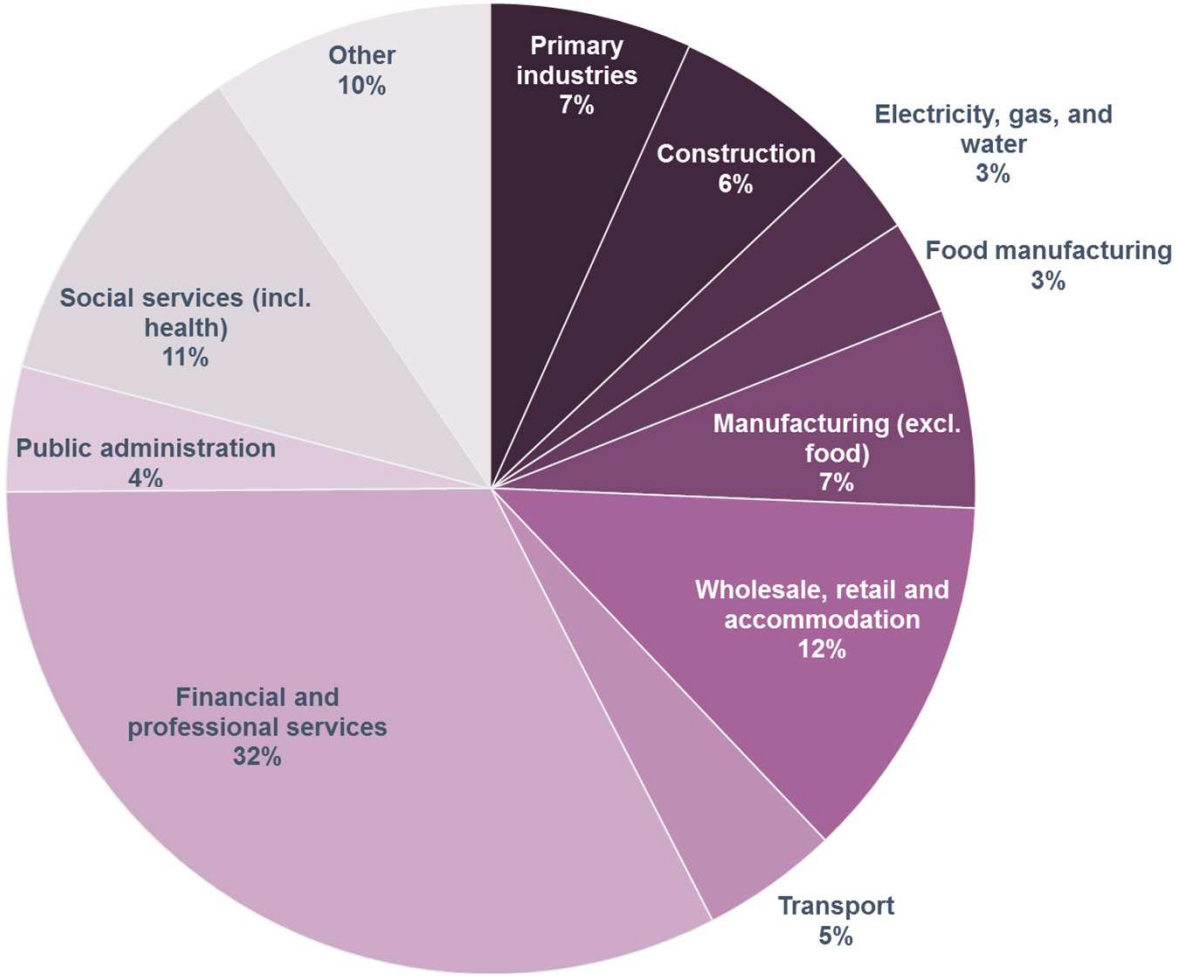
Composition of the New Zealand economy

Composition of GDP



Source: Statistics NZ
Date: December 2017

Document Classification: PROTECTED

Digital Transformation

Digital Sales up **50%**

69% DIGITALLY ACTIVE CUSTOMERS

one

Business pilot launched

Successfully migrated customer facing Contact Centres to **PureCloud**

90 million digital device logins

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- Funding and Securitisation Programmes.
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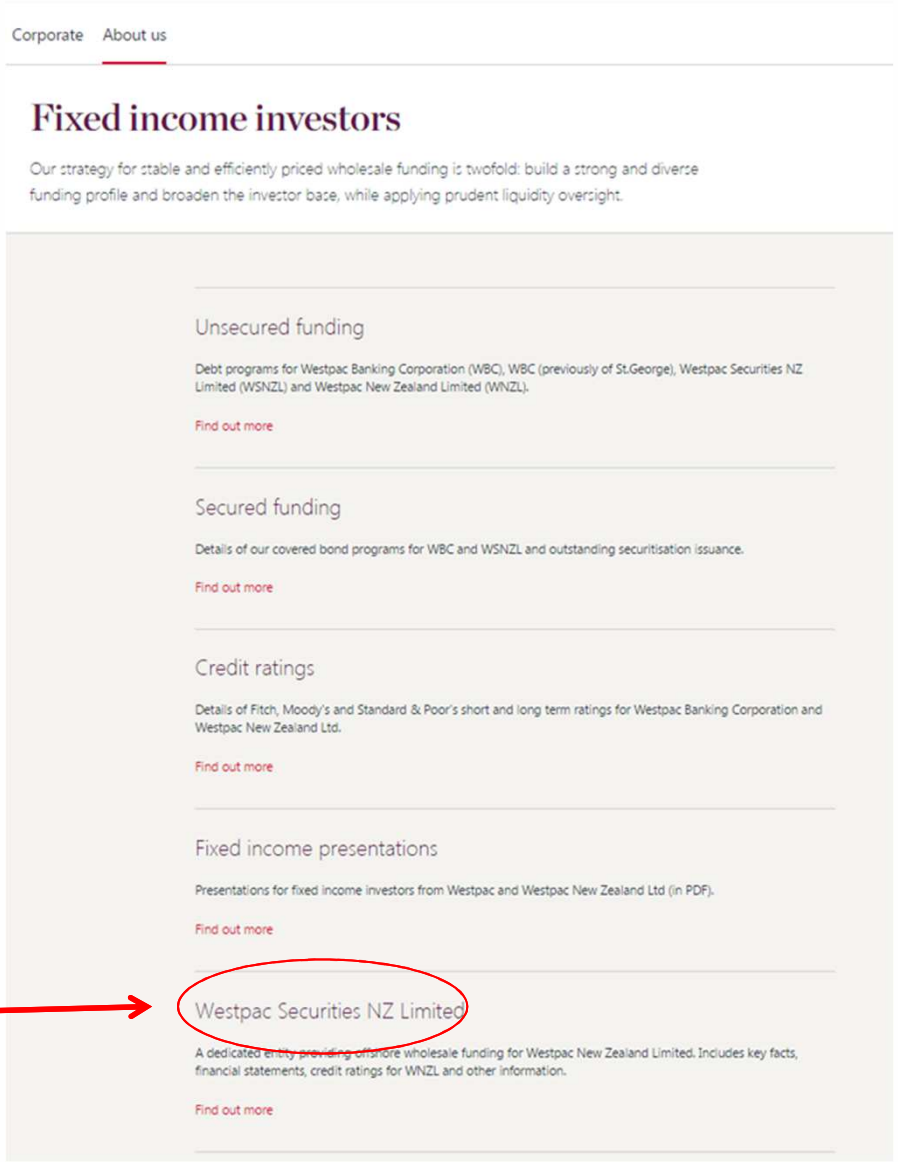

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