



# Westpac Banking Corporation – New Zealand Division Disclosure Statement

For the six months ended 31 March 2012

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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 (Overseas Incorporated Registered Banks) Order 2012 ('**Order**').

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

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2011 are set out in Note 28 to the NZ Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Note 10 to the financial statements, there have been no other changes in the structure or composition of the NZ Banking Group since 30 September 2011;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations.

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

## General matters

### Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank Act. The NZ Branch's head office is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the NZ Branch is Westpac on Takutai Square, 53 Galway Street, Auckland, New Zealand.

### Overseas Bank

The Overseas Bank was founded on 12 February 1817 and was incorporated on 23 September 1850 pursuant to the Bank of New South Wales Act 1850. In 1982 the Overseas Bank acquired The Commercial Bank of Australia Limited and the Overseas Bank changed its name to Westpac Banking Corporation. On 23 August 2002 the Overseas Bank registered as a public company limited by shares under the Australian Corporations Act 2001 and as of that date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office and address for service of process is Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Until 1 November 2006 the Overseas Bank operated as a branch in New Zealand. Effective 1 November 2006 the Overseas Bank has operated in New Zealand through both the NZ Branch (a branch of the Overseas Bank carrying on financial markets operations, and institutional banking activities until 1 November 2011) and Westpac New Zealand. Westpac New Zealand is a member of the NZ Banking Group.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to Westpac New Zealand (refer to Note 2 Discontinued operations and Note 43.1 Events after the reporting date – Transfer of operations to Westpac New Zealand included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011 for further details).

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2012.

### Directors

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

**Lindsay Philip Maxsted**, DipBus. (Gordon), FCA – Chairman

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

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

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

**Gordon McKellar Cairns**, MA (Hons.)

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

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

**Carolyn Judith Hewson** AO, BEc (Hons.), MA (Econ.)

**Ann Darlene Pickard**, BA, MA

**Peter David Wilson**, CA

### Chief Executive Officer, NZ Branch

**David Alexander McLean**, LLB (Hons.)

## General matters (continued)

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2011:

- Ted Evans retired following the 2011 Annual General Meeting on 14 December 2011. Ted Evans was succeeded as Chairman by Lindsay Maxsted;
- Ann Pickard was appointed to the Board effective 1 December 2011. Ms Pickard is an independent Non-executive Director and has over 25 years of international experience as a senior manager in large organisations;
- Graham Reaney retired following the 2011 Annual General Meeting on 14 December 2011; and
- Robert Elstone was appointed to the Board effective 1 February 2012. Mr Elstone is an independent Non-executive Director. Prior to his appointment he was Managing Director and CEO of ASX Limited.

There has been no other change in the composition of the Board since 30 September 2011.

### Responsible person

As announced on 9 March 2012 and effective on 2 April 2012, Peter Graham Clare was appointed Chief Executive of Westpac New Zealand, replacing George Frazis as Chief Executive of Westpac New Zealand.

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

## Auditors

### PricewaterhouseCoopers

PricewaterhouseCoopers Tower  
188 Quay Street  
Auckland, New Zealand

## Credit ratings

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

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

On 30 January 2012, Fitch Ratings ('**Fitch**') placed the Overseas Bank's credit rating outlook on rating watch negative. The announcement by Fitch formed part of a broader review of the debt ratings Fitch applies to the largest banking institutions in the world. On 24 February 2012, the Overseas Bank's credit rating issued by Fitch was downgraded from AA to AA- with a 'stable' outlook.

There have been no other changes to any of the Overseas Bank's credit ratings or rating outlooks since 31 December 2011.

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

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2011 and for the six months ended 31 March 2012, respectively, and can be accessed at the internet address [www.westpac.com.au](http://www.westpac.com.au).

## Guarantee arrangements

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

The guaranteed material obligations of Westpac New Zealand are disclosed in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2012 which is available, free of charge, at the internet address [www.westpac.co.nz](http://www.westpac.co.nz).

## Ranking of local creditors in liquidation

Since 30 September 2011, there have been no material changes to the legislative or regulatory restrictions in Australia (being the Overseas Bank's country of incorporation) which subordinate the claims of any class of unsecured creditors of the NZ Branch on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) to those of any other class of unsecured creditors of the Overseas Bank.

Since 30 September 2011, there have been no material changes in any regulatory or legislative requirements in Australia that require the Overseas Bank to maintain sufficient assets in Australia to cover an ongoing obligation to pay deposit liabilities in Australia.

## Other material matters

Certain matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group have been disclosed on the New Zealand and/or Australian stock exchanges.

There are no matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group which are not contained elsewhere in the Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Overseas Bank or any member of the NZ Banking Group is the issuer.

## Conditions of registration

The conditions of registration imposed on Westpac Banking Corporation (the '**registered bank**') in New Zealand, which applied on and after 30 September 2011, are as follows:

1. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.  
In this condition of registration, the meaning of 'material' is based on generally accepted accounting practice.
2. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.  
For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:
  - (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
  - (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.In determining the total amount of the Banking Group's insurance business:
  - (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
  - (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.For the purposes of this condition of registration:
  - 'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance;
  - 'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.
3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
5. That Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
  - (a) Tier One Capital of Westpac Banking Corporation is not less than 4% of risk-weighted exposures; and
  - (b) capital of Westpac Banking Corporation is not less than 8% of risk-weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed \$15 billion.
8. That the retail deposits of the registered bank in New Zealand do not exceed \$200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds \$250,000.

In these conditions of registration:

- 'Banking Group' means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 9(2) of the Financial Reporting Act 1993;
- 'business of the registered bank in New Zealand' means the New Zealand business of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993;
- 'generally accepted accounting practice' has the same meaning as in section 2 of the Financial Reporting Act 1993; and
- 'liabilities of the registered bank in New Zealand' means the liabilities of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993.

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

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

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

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

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

This Disclosure Statement has been signed on behalf of the Directors by Peter Graham Clare, Chief Executive, Westpac New Zealand, and David Alexander McLean, Chief Executive Officer, NZ Branch.



Peter Graham Clare



David Alexander McLean

Dated this the 30<sup>th</sup> day of May 2012

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## Consolidated income statement for the six months ended 31 March 2012

		<b>NZ Banking Group</b>		
		<b>Six Months Ended 31 March 2012 Unaudited \$m</b>	Six Months Ended 31 March 2011 Unaudited \$m	Year Ended 30 September 2011 Audited \$m
		Note		
Interest income			1,990	2,036
Interest expense			<b>(1,241)</b>	(2,482)
<b>Net interest income</b>			<b>749</b>	1,534
Non-interest income:				
Fees and commissions	2		164	159
Wealth management revenue	2		49	43
Trading income	2		59	25
Gains on ineffective hedges	2		-	4
Other non-interest income	2		20	16
<b>Total non-interest income</b>			<b>292</b>	247
<b>Net operating income</b>			<b>1,041</b>	941
Operating expenses			<b>(427)</b>	(423)
Impairment charges on loans	3		<b>(94)</b>	(119)
<b>Operating profit</b>			<b>520</b>	399
Share of profit of associate accounted for using equity method			-	-
<b>Profit before income tax expense</b>			<b>520</b>	399
Income tax expense on operating profit			<b>(143)</b>	(120)
Income tax expense related to New Zealand structured finance transactions			-	-
<b>Profit after income tax expense</b>			<b>377</b>	279
<b>Profit after income tax expense attributable to:</b>				
Head office account and owners of the NZ Banking Group			<b>376</b>	277
Non-controlling interests			<b>1</b>	2
			<b>377</b>	279

The accompanying notes (numbered 1 to 20) 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 2012

	NZ Banking Group		
	Six Months Ended 31 March 2012 Unaudited \$m	Six Months Ended 31 March 2011 Unaudited \$m	Year Ended 30 September 2011 Audited \$m
<b>Profit after income tax expense</b>	<b>377</b>	279	666
<b>Other comprehensive income:</b>			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	50	(1)	6
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	56	13	63
Actuarial losses on employee defined benefit superannuation schemes	-	-	(15)
Income tax relating to components of other comprehensive income <sup>1</sup>	(26)	(4)	(15)
<b>Other comprehensive income, net of tax</b>	<b>80</b>	8	39
<b>Total comprehensive income</b>	<b>457</b>	287	705
<b>Total comprehensive income attributable to:</b>			
Head office account and owners of NZ Banking Group	456	285	701
Non-controlling interests	1	2	4
	<b>457</b>	287	705

<sup>1</sup> The income tax effects relating to each component of other comprehensive income are disclosed in the following table.

### Tax effects relating to each component of other comprehensive income

	NZ Banking Group		
	Before Tax Amount \$m	Tax (Expense)/Benefit \$m	Net of Tax Amount \$m
<b>For the six months ended 31 March 2012 (Unaudited)</b>			
Net unrealised gains from changes in fair value of available-for-sale securities	50	(10)	40
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	56	(16)	40
<b>Other comprehensive income</b>	<b>106</b>	<b>(26)</b>	<b>80</b>
<b>For the six months ended 31 March 2011 (Unaudited)</b>			
Net unrealised losses from changes in fair value of available-for-sale securities	(1)	-	(1)
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	13	(4)	9
<b>Other comprehensive income</b>	<b>12</b>	<b>(4)</b>	<b>8</b>
<b>For the year ended 30 September 2011 (Audited)</b>			
Net unrealised gains from changes in fair value of available-for-sale securities	6	-	6
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	63	(20)	43
Actuarial losses on employee defined benefit superannuation schemes	(15)	5	(10)
<b>Other comprehensive income</b>	<b>54</b>	<b>(15)</b>	<b>39</b>

The accompanying notes (numbered 1 to 20) 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 2012

	NZ Banking Group									
	Head Office Account (Accumulated Losses)/ Retained Profits \$m		Convertible Debentures \$m	NZ Banking Group Equity				Total before Non- controlling Interests \$m	Non- controlling Interests \$m	Total Equity \$m
Branch Capital \$m		Share Capital \$m		Retained Profits \$m	Cash Flow Hedge Reserve \$m	Available- for-sale Securities Reserve \$m				
<b>As at 1 October 2010</b>	1,300	(108)	1,284	139	1,599	(117)	25	4,122	6	4,128
<b>Six months ended 31 March 2011</b>										
Profit after income tax expense	-	118	-	-	159	-	-	277	2	279
Other comprehensive income/ (expense)	-	-	-	-	-	9	(1)	8	-	8
<b>Total comprehensive income/ (expense) for the six months ended 31 March 2011</b>	-	118	-	-	159	9	(1)	285	2	287
Transactions with owners:										
Dividends paid on convertible debentures (net of tax)	-	(35)	-	-	-	-	-	(35)	-	(35)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(2)	(2)
<b>As at 31 March 2011 (Unaudited)</b>	1,300	(25)	1,284	139	1,758	(108)	24	4,372	6	4,378
<b>Year ended 30 September 2011</b>										
Profit after income tax expense	-	267	-	-	395	-	-	662	4	666
Other comprehensive (expense)/ income	-	-	-	-	(10)	43	6	39	-	39
<b>Total comprehensive income for the year ended 30 September 2011</b>	-	267	-	-	385	43	6	701	4	705
Transactions with owners:										
Dividends paid on convertible debentures (net of tax)	-	(70)	-	-	-	-	-	(70)	-	(70)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(2)	(2)
<b>As at 30 September 2011 (Audited)</b>	1,300	89	1,284	139	1,984	(74)	31	4,753	8	4,761
<b>Six months ended 31 March 2012</b>										
Profit after income tax expense	-	107	-	-	269	-	-	376	1	377
Other comprehensive income	-	-	-	-	-	40	40	80	-	80
<b>Total comprehensive income for the six months ended 31 March 2012</b>	-	107	-	-	269	40	40	456	1	457
Transactions with owners:										
Dividends paid on convertible debentures (net of tax)	-	(36)	-	-	-	-	-	(36)	-	(36)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(4)	(4)
<b>As at 31 March 2012 (Unaudited)</b>	1,300	160	1,284	139	2,253	(34)	71	5,173	5	5,178

The accompanying notes (numbered 1 to 20) form part of, and should be read in conjunction with, these financial statements.

## Consolidated balance sheet as at 31 March 2012

		NZ Banking Group		
		31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
	Note			
<b>Assets</b>				
Cash and balances with central banks		1,271	2,065	1,871
Due from other financial institutions		159	121	699
Derivative financial instruments		4,676	4,567	6,060
Trading securities	4	5,191	7,260	6,065
Available-for-sale securities		2,583	576	1,518
Loans	5, 6	58,689	56,770	58,114
Life insurance assets		210	162	186
Due from related entities		1,523	1,301	2,272
Investment in associate		48	48	48
Goodwill and other intangible assets		627	606	617
Property, plant and equipment		155	142	154
Current tax assets		-	24	-
Deferred tax assets		222	326	231
Other assets		307	314	458
<b>Total assets</b>		<b>75,661</b>	<b>74,282</b>	<b>78,293</b>
<b>Liabilities</b>				
Due to other financial institutions		196	1,203	778
Deposits	7	40,836	38,715	39,575
Derivative financial instruments		4,596	4,503	5,448
Trading liabilities	8	782	508	1,286
Debt issues	9	14,382	17,066	17,630
Current tax liabilities		20	-	23
Provisions		83	80	92
Other liabilities		695	732	1,223
<b>Total liabilities excluding subordinated debentures and due to related entities</b>		<b>61,590</b>	<b>62,807</b>	<b>66,055</b>
Subordinated debentures		728	758	785
Due to related entities		8,165	6,339	6,692
<b>Total related entities liabilities</b>		<b>8,893</b>	<b>7,097</b>	<b>7,477</b>
<b>Total liabilities</b>		<b>70,483</b>	<b>69,904</b>	<b>73,532</b>
<b>Net assets</b>		<b>5,178</b>	<b>4,378</b>	<b>4,761</b>
<b>Equity</b>				
<b>Head office account</b>				
Branch capital		1,300	1,300	1,300
Retained profits/(accumulated losses)		160	(25)	89
<b>Total head office account</b>		<b>1,460</b>	<b>1,275</b>	<b>1,389</b>
Convertible debentures		1,284	1,284	1,284
<b>NZ Banking Group equity</b>		<b>139</b>	<b>139</b>	<b>139</b>
Ordinary share capital		2,253	1,758	1,984
Retained profits		(34)	(108)	(74)
Cash flow hedge reserve		71	24	31
Available-for-sale securities reserve		-	-	-
<b>Total equity attributable to owners of the NZ Banking Group</b>		<b>2,429</b>	<b>1,813</b>	<b>2,080</b>
Non-controlling interests		5	6	8
<b>Total equity</b>		<b>5,178</b>	<b>4,378</b>	<b>4,761</b>
Interest earning and discount bearing assets		68,322	67,441	68,745
Interest and discount bearing liabilities		61,069	60,568	62,823

The accompanying notes (numbered 1 to 20) 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 2012

	NZ Banking Group		
	Six Months Ended 31 March 2012 Unaudited \$m	Six Months Ended 31 March 2011 Unaudited \$m	Year Ended 30 September 2011 Audited \$m
<b>Cash flows from operating activities</b>			
Interest income received	1,984	2,031	4,025
Interest expense paid	(1,271)	(1,366)	(2,488)
Non-interest income received	320	220	437
Net decrease/(increase) in trading securities	1,006	(1,714)	(625)
Net (decrease)/increase in trading liabilities	(1,006)	269	1,549
Net movement in derivative financial instruments	588	133	(365)
Operating expenses paid	(397)	(381)	(744)
Income tax paid	(153)	(119)	(162)
<b>Net cash provided by/(used in) operating activities</b>	<b>1,071</b>	<b>(927)</b>	<b>1,627</b>
<b>Cash flows from investing activities</b>			
Net increase in available-for-sale securities	(1,015)	(480)	(1,468)
Net loans advanced to customers	(669)	(151)	(1,602)
Net increase in life insurance assets	(24)	(16)	(40)
Net decrease/(increase) in due from related entities	749	(28)	(971)
Purchase of capitalised computer software	(28)	(14)	(46)
Purchase of property, plant and equipment	(14)	(28)	(55)
<b>Net cash used in investing activities</b>	<b>(1,001)</b>	<b>(717)</b>	<b>(4,182)</b>
<b>Cash flows from financing activities</b>			
Net increase in deposits	1,261	695	1,555
Net (decrease)/increase from debt issues	(3,248)	1,627	2,191
Net increase/(decrease) in due to related entities	1,470	(394)	(75)
Net decrease in subordinated debentures	(57)	(61)	(34)
Dividends paid on convertible debentures	(50)	(50)	(100)
Dividends paid to minority shareholders	(4)	(2)	(2)
<b>Net cash (used in)/provided by financing activities</b>	<b>(628)</b>	<b>1,815</b>	<b>3,535</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(558)</b>	<b>171</b>	<b>980</b>
Cash and cash equivalents at beginning of the period/year	1,792	812	812
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,234</b>	<b>983</b>	<b>1,792</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with central banks	1,271	2,065	1,871
Due to other financial institutions – (net)	(37)	(1,082)	(79)
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,234</b>	<b>983</b>	<b>1,792</b>
<b>Reconciliation of profit after income tax expense to net cash provided by/(used in) operating activities</b>			
Profit after income tax expense	377	279	666
<i>Adjustments:</i>			
Impairment charges on loans	94	119	226
Computer software amortisation costs	18	23	42
Depreciation on property, plant and equipment	13	12	22
Loss/(gain) on disposal of property, plant and equipment	-	1	(7)
Loss on disposal of computer software	-	-	2
Share-based payments	3	12	18
Movement in other assets	(44)	(33)	4
Movement in other liabilities	(35)	(29)	15
Movement in current and deferred tax	6	(10)	132
Tax on cash flow hedge reserve	(16)	(4)	(20)
Tax on available-for-sale reserve	(10)	-	-
Tax on convertible debentures dividends	14	15	30
Movement in trading securities	1,069	(1,714)	(687)
Movement in trading liabilities	(1,006)	269	1,549
Movement in derivative financial instruments	588	133	(365)
<b>Net cash provided by/(used in) operating activities</b>	<b>1,071</b>	<b>(927)</b>	<b>1,627</b>

The accompanying notes (numbered 1 to 20) 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

These consolidated financial statements have been prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2011.

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

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2011, the following standards, interpretations and amendments have been adopted with effect from 1 October 2011:

- New Zealand Equivalent to International Financial Reporting Standard ('**NZ IFRS**') 7 *Financial Instruments: Disclosures* ('**NZ IFRS 7**):
  - The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended or removed.
  - *Amendments to NZ IFRS 7 Disclosures – Transfers of Financial Assets* – The amendments require additional disclosures about the transfer of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.
- NZ IAS 1 *Presentation of Financial Statements* – The amendments clarify that an analysis of other comprehensive income by item is required to be disclosed either in the statement of changes in equity or in the notes to the financial statements.
- NZ IAS 24 *Related Party Disclosures* – The main changes to the standard simplify the definition of a related party and clarify its intended meaning.
- NZ IAS 34 *Interim Financial Reporting* – The amendments add examples to the list of significant events or transactions that require disclosure under NZ IAS 34.
- New Zealand Equivalent to International Financial Reporting Interpretations Committee ('**NZ IFRIC**') 13 *Customer Loyalty Programmes* – The amendments clarify the fair value of award credits and take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.
- NZ IFRIC 14 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – The amendments remove the unintended consequence arising from the treatment of prepayments when there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- *Amendments to NZ IFRS 7: Disclosure Amendments to Appendix E New Zealand-specific additional disclosure requirements applicable to financial institutions* – The amendments replace the term 'financial institutions' with the term 'deposit takers'. The amendments also remove registered banks from its scope as the disclosure requirements have been relocated to the Order.
- *Amendments to NZ IFRSs to Harmonise with IFRS and Australian Accounting Standards* – The amendments remove certain New Zealand-specific disclosures and relocate certain disclosure requirements to a new standard. The NZ Banking Group has chosen to continue disclosing certain information no longer required as a result of this joint Trans-Tasman Convergence project.
- Financial Reporting Standard 44 *New Zealand Additional Disclosures* – This new standard is applicable only to New Zealand and is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board and Financial Reporting Standards Board. This standard relocates certain New Zealand specific disclosures from other NZ IFRS and also revises certain disclosures.

Adoption of these new and revised accounting standards has not resulted in any material change to the NZ Banking Group's reported result or financial position.

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

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

These financial statements were authorised for issue by the Board on 30 May 2012. The Board has the power to amend the financial statements after they are authorised for issue.

### Basis of preparation

The 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 2011, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the 'Statutory base' section above.

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

### Basis of aggregation

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

# Notes to the financial statements

## Note 1 Statement of accounting policies (continued)

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

All transactions and balances between entities within the NZ Banking Group have been eliminated.

## Note 2 Non-interest income

	NZ Banking Group		
	Six Months Ended 31 March 2012 Unaudited \$m	Six Months Ended 31 March 2011 Unaudited \$m	Year Ended 30 September 2011 Audited \$m
<b>Fees and commissions</b>			
Transaction fees and commissions	121	117	238
Lending fees (loan and risk)	31	31	62
Insurance commissions received	7	6	12
Other non-risk fee income	5	5	7
<b>Total fees and commissions</b>	<b>164</b>	<b>159</b>	<b>319</b>
<b>Wealth management revenue</b>			
Fees from trust and other fiduciary activities	71	67	133
Net life insurance income and change in policy liabilities	(22)	(24)	(43)
<b>Total wealth management revenue</b>	<b>49</b>	<b>43</b>	<b>90</b>
<b>Trading income</b>			
Foreign exchange trading	42	32	76
Interest rate trading	17	(7)	(22)
<b>Total trading income<sup>1</sup></b>	<b>59</b>	<b>25</b>	<b>54</b>
<b>Gains on ineffective hedges</b>	-	4	3
<b>Other non-interest income</b>			
Net gains on derivatives held for risk management purposes	8	15	28
Dividend income	-	-	3
Rental income	1	1	1
(Losses)/gains on disposal of property, plant and equipment	-	(1)	7
Other	11	1	4
<b>Total other non-interest income</b>	<b>20</b>	<b>16</b>	<b>43</b>
<b>Total non-interest income</b>	<b>292</b>	<b>247</b>	<b>509</b>

<sup>1</sup> Total trading income includes a credit risk expense adjustment of \$6 million for the six months ended 31 March 2012 (31 March 2011: expense \$2 million, 30 September 2011: income \$5 million).

## Note 3 Impairment charges on loans

	NZ Banking Group			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
<b>Six months ended 31 March 2012 (Unaudited)</b>				
Collectively assessed provision	1	3	(3)	1
Individually assessed provisions	19	-	54	73
Bad debt write-off direct to the income statement	3	20	14	37
Interest adjustments	(2)	(4)	(11)	(17)
<b>Total impairment charges on loans</b>	<b>21</b>	<b>19</b>	<b>54</b>	<b>94</b>
<b>Six months ended 31 March 2011 (Unaudited)</b>				
Collectively assessed provision	-	(20)	(42)	(62)
Individually assessed provisions	47	-	129	176
Bad debt write-off direct to the income statement	-	20	8	28
Interest adjustments	(4)	(8)	(11)	(23)
<b>Total impairment charges on loans</b>	<b>43</b>	<b>(8)</b>	<b>84</b>	<b>119</b>
<b>Year ended 30 September 2011 (Audited)</b>				
Collectively assessed provision	(14)	(35)	(30)	(79)
Individually assessed provisions	80	-	191	271
Bad debt write-off direct to the income statement	5	44	23	72
Interest adjustments	(6)	(12)	(20)	(38)
<b>Total impairment charges on loans</b>	<b>65</b>	<b>(3)</b>	<b>164</b>	<b>226</b>

## Note 4 Trading securities

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
<b>Trading securities</b>			
Listed:			
NZ Government securities	862	2,853	2,576
NZ corporate securities	17	17	16
Offshore securities	-	2	-
<b>Total listed securities</b>	<b>879</b>	<b>2,872</b>	<b>2,592</b>
Unlisted:			
NZ corporate securities:			
Certificates of deposit	2,520	3,524	2,157
Commercial paper	307	266	282
Corporate bonds	376	146	328
Mortgage-backed securities	6	8	7
Offshore securities	3	26	2
NZ Government securities	192	-	10
<b>Total unlisted securities</b>	<b>3,404</b>	<b>3,970</b>	<b>2,786</b>
Securities purchased under agreement to resell	908	418	687
<b>Total trading securities</b>	<b>5,191</b>	<b>7,260</b>	<b>6,065</b>

As at 31 March 2012 the NZ Banking Group had \$305 million of trading securities (31 March 2011: \$225 million, 30 September 2011: \$507 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

## Note 5 Loans

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
Overdrafts	1,296	1,278	1,258
Credit card outstandings	1,320	1,264	1,270
Money market loans	939	1,037	1,082
Term loans:			
Housing	35,540	34,387	35,044
Non-housing	19,333	18,785	19,163
Other	942	866	962
<b>Total gross loans</b>	<b>59,370</b>	<b>57,617</b>	<b>58,779</b>
Provisions for impairment charges on loans	(681)	(847)	(665)
<b>Total net loans</b>	<b>58,689</b>	<b>56,770</b>	<b>58,114</b>

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 6.

On 22 November 2010, Westpac NZ Covered Bond Limited ('**WNZCBL**') was incorporated, as part of the NZ Banking Group's global covered bond programme, to hold a portion of the NZ Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by Westpac Securities NZ Limited ('**WSNZL**'). WSNZL is an indirect, wholly-owned subsidiary company of Westpac New Zealand. Each guarantee provided by WNZCBL is secured by the housing loans from time to time held by WNZCBL. As at 31 March 2012, the value of covered bonds issued by WSNZL was €1.0 billion (\$1.6 billion) (31 March 2011: €nil, \$nil, 30 September 2011: €1.0 billion, \$1.8 billion). As at 31 March 2012, the value of the assets held by WNZCBL (being the underlying collateral for those guarantees) was \$3.76 billion (31 March 2011: \$2.75 billion, 30 September 2011: \$2.75 billion). These assets have not been derecognised from Westpac New Zealand's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements for the year ended 30 September 2011.

On 2 April 2012, WSNZL issued CHF325 million (\$435 million) of covered bonds, the terms of which were agreed in March 2012.

# Notes to the financial statements

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

	NZ Banking Group			
	Six Months Ended 31 March 2012 (Unaudited)			
	Residential Mortgages \$m	Other Loans for Consumer Purposes \$m	Loans for Business Purposes \$m	Total \$m
<b>Neither past due nor impaired</b>				
Strong	-	-	7,528	7,528
Good/Satisfactory	34,113	1,681	11,714	47,508
Weak	-	-	1,594	1,594
<b>Total neither past due nor impaired</b>	<b>34,113</b>	<b>1,681</b>	<b>20,836</b>	<b>56,630</b>
<b>Past due assets</b>				
Less than 30 days past due	977	98	273	1,348
At least 30 days but less than 60 days past due	132	22	30	184
At least 60 days but less than 90 days past due	56	10	17	83
At least 90 days past due	90	18	118	226
<b>Total past due assets<sup>1</sup></b>	<b>1,255</b>	<b>148</b>	<b>438</b>	<b>1,841</b>
<b>Individually impaired assets<sup>2</sup></b>				
Balance at beginning of the period	195	-	723	918
Additions	115	-	117	232
Amounts written off	(24)	-	(58)	(82)
Returned to performing or repaid	(114)	-	(55)	(169)
<b>Balance at end of the period</b>	<b>172</b>	<b>-</b>	<b>727</b>	<b>899</b>
<b>Restructured assets</b>				
Balance at beginning of the period	1	-	-	1
Deletions	(1)	-	-	(1)
<b>Balance at end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impaired assets</b>	<b>172</b>	<b>-</b>	<b>727</b>	<b>899</b>
<b>Total gross loans<sup>3</sup></b>	<b>35,540</b>	<b>1,829</b>	<b>22,001</b>	<b>59,370</b>
<b>Individually assessed provisions</b>				
Balance at beginning of the period	64	-	202	266
Impairment charges on loans:				
New provisions	37	-	61	98
Recoveries	(5)	-	(2)	(7)
Reversal of previously recognised impairment charges on loans	(13)	-	(5)	(18)
Amounts written off	(21)	-	(37)	(58)
Interest adjustments	-	-	2	2
<b>Balance at end of the period</b>	<b>62</b>	<b>-</b>	<b>221</b>	<b>283</b>
<b>Collectively assessed provisions</b>				
Balance at beginning of the period	66	69	302	437
Impairment movement on loans	1	3	(3)	1
<b>Balance at end of the period</b>	<b>67</b>	<b>72</b>	<b>299</b>	<b>438</b>
Total provision for impairment charges on loans and credit commitments	129	72	520	721
Provision for credit commitments	-	-	(40)	(40)
<b>Total provisions for impairment charges on loans</b>	<b>129</b>	<b>72</b>	<b>480</b>	<b>681</b>
<b>Total net loans</b>	<b>35,411</b>	<b>1,757</b>	<b>21,521</b>	<b>58,689</b>

1 Past due assets are not impaired assets under NZ IFRS.

2 The NZ Banking Group had undrawn commitments of \$5 million on individually impaired assets under loans for business purposes as at 31 March 2012.

3 The NZ Banking Group did not have other assets under its administration as at 31 March 2012.



# Notes to the financial statements

## Note 7 Deposits

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
<b>Deposits at fair value</b>			
Certificates of deposit	1,412	1,485	1,556
<b>Total deposits at fair value</b>	<b>1,412</b>	<b>1,485</b>	<b>1,556</b>
<b>Deposits at amortised cost</b>			
Non-interest bearing, repayable at call	2,937	2,831	2,753
Other interest bearing:			
At call	15,543	13,601	14,386
Term	20,944	20,798	20,880
<b>Total deposits at amortised cost</b>	<b>39,424</b>	<b>37,230</b>	<b>38,019</b>
<b>Total deposits</b>	<b>40,836</b>	<b>38,715</b>	<b>39,575</b>

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

## Note 8 Trading liabilities

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
<b>Held for trading</b>			
Securities sold short	477	283	779
Securities sold under agreements to repurchase	305	225	507
<b>Total trading liabilities</b>	<b>782</b>	<b>508</b>	<b>1,286</b>

## Note 9 Debt issues

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
<b>Short-term debt</b>			
Commercial paper	4,211	8,265	7,229
<b>Total short-term debt</b>	<b>4,211</b>	<b>8,265</b>	<b>7,229</b>
<b>Long-term debt</b>			
Non-domestic medium-term notes	8,111	6,579	8,803
Domestic medium-term notes	2,060	2,222	1,598
<b>Total long-term debt</b>	<b>10,171</b>	<b>8,801</b>	<b>10,401</b>
<b>Total debt issues</b>	<b>14,382</b>	<b>17,066</b>	<b>17,630</b>
Debt issues at amortised cost	9,828	8,636	9,903
Debt issues at fair value	4,554	8,430	7,727
<b>Total debt issues</b>	<b>14,382</b>	<b>17,066</b>	<b>17,630</b>
	<b>31 March 2012 Unaudited \$m</b>	<b>31 March 2011 Unaudited \$m</b>	<b>30 September 2011 Unaudited \$m</b>
<b>Movement in debt issues</b>			
Balance at beginning of the period/year	17,630	15,439	15,439
Issuance during the period/year	6,370	9,681	17,788
Repayments during the period/year	(8,842)	(7,623)	(15,120)
Effect of foreign exchange movements during the period/year	(820)	(289)	(534)
Effect of fair value movements during the period/year	44	(142)	57
<b>Balance at end of the period/year</b>	<b>14,382</b>	<b>17,066</b>	<b>17,630</b>

As at 31 March 2012, the NZ Banking Group had New Zealand Government guaranteed debt on issue of \$3,836 million (31 March 2011: \$4,082 million, 30 September 2011: \$4,073 million). Refer to Guarantee arrangements on page 2 for further information.

On 25 May 2012, USD1,500 million (\$1,993 million) of New Zealand Government guaranteed, non-domestic medium term notes of the NZ Banking Group matured.

# Notes to the financial statements

## Note 10 Related entities

TBNZ Investments (UK) Limited ceased to be a controlled entity of the NZ Banking Group on 4 January 2012. TBNZ Investments (UK) Limited was dissolved and removed from the Register of Companies for England and Wales on 27 December 2011. The entity did not have a significant impact on the NZ Banking Group's financial position as at 31 March 2012 or the results of operations for the six months ended 31 March 2012.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to Westpac New Zealand, which was accounted for as a discontinued operation (refer to Note 2 Discontinued operations and Note 43.1 Events after the reporting date – Transfer of operations to Westpac New Zealand in the notes to the NZ Branch's financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011 for further details).

There have been no other changes to the structure or composition of the NZ Banking Group since 30 September 2011. Controlled entities of the NZ Banking Group as at 30 September 2011 are set out in Note 28 to the NZ Banking Group's financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 March 2012 amounted to \$5,571 million (31 March 2011: \$11,894 million, 30 September 2011: \$12,688 million).

## Note 11 Commitments and contingent liabilities

	NZ Banking Group		
	31 March 2012 Unaudited \$m	31 March 2011 Unaudited \$m	30 September 2011 Audited \$m
<b>Commitments for capital expenditure</b>			
Due within one year	1	21	2
<b>Other expenditure commitments:</b>			
One year or less	82	86	89
Between one and five years	304	59	306
Over five years	-	-	34
<b>Total other expenditure commitments</b>	<b>386</b>	145	429
<b>Lease commitments (all leases are classified as operating leases)</b>			
Premises and sites	222	225	230
Motor vehicles	6	9	8
<b>Total lease commitments</b>	<b>228</b>	234	238
<b>Lease commitments are due as follows:</b>			
One year or less	44	50	44
Between one and five years	112	105	104
Over five years	72	79	90
<b>Total lease commitments</b>	<b>228</b>	234	238
<b>Other contingent liabilities and commitments</b>			
Direct credit substitutes	332	332	333
Loan commitments with certain drawdown	160	117	164
Transaction related contingent items	661	674	700
Underwriting and sub-underwriting facilities	-	34	300
Short-term, self liquidating trade related contingent liabilities	442	441	443
Other commitments to provide financial services	18,186	17,562	17,336
<b>Total other contingent liabilities and commitments</b>	<b>19,781</b>	19,160	19,276

The NZ Banking Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, financial guarantees, standby letters of credit and underwriting facilities.

The NZ Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the NZ Banking Group's option.

The NZ Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The NZ Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The NZ Banking Group evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies, but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

## Note 11 Commitments and contingent liabilities (continued)

The NZ Banking Group is obliged to repurchase securitised loans:

- (a) held by the Westpac Home Loan Trust ('HLT') where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;
- (b) held by the Westpac NZ Securitisation Limited securitisation programme where the securitised loans cease to conform to certain terms and conditions of the Westpac NZ Securitisation Limited securitisation programme;
- (c) held by WNZCBL (pursuant to the WSNZL Global Covered Bond Programme of the NZ Banking Group) where:
  - (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);
  - (ii) the securitised loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of such securitised loan; or
  - (iii) at the cut-off date relating to the securitised loan there were arrears of interest and that securitised loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the securitised loan.

It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these obligations.

Westpac New Zealand guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect, wholly-owned subsidiary WSNZL, the proceeds of which are immediately on-lent to Westpac New Zealand. The aggregate amount of outstanding principal and interest as at 31 March 2012 was \$12,189 million (31 March 2011: \$14,962 million, 30 September 2011: \$15,945 million).

In addition, the NZ Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 5 for further details).

### Other contingent liabilities

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these claims has been made on a case-by-case basis and provision has been made in these financial statements, where appropriate.

Westpac (NZ) Investments Limited ('WNZIL'), a subsidiary of Westpac New Zealand, leases the majority of the properties occupied by the NZ Banking Group. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of a lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 31 March 2012 was estimated to be \$21 million (31 March 2011: \$25 million, 30 September 2011: \$22 million). No amount has been recognised for the \$21 million in estimated maximum vacation payments as the NZ Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

### Other commitments

As at 31 March 2012, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other arrangements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risk. Accordingly, it is not envisaged that any liability resulting in a material loss to the NZ Banking Group will arise from these transactions to the extent that a provision has not been provided for under the NZ Banking Group's usual practices.

## Note 12 Segment information

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

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

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

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

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

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

Reconciling items primarily represent:

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

Net interest income and non-interest income have been included in the following table to align with the information provided to the 'chief operating decision maker'.

Comparative information for net operating income from external customers and net internal operating income has been changed to ensure consistent presentation with the current reporting period.

# Notes to the financial statements

## Note 12 Segment information (continued)

	NZ Banking Group				Total \$m
	Consumer Banking \$m	Business Banking \$m	Institutional Banking \$m	Reconciling Items \$m	
<b>Six months ended 31 March 2012 (Unaudited)</b>					
Net operating income from external customers	752	523	204	(438)	1,041
Net internal operating income	(204)	(233)	(31)	468	-
<b>Net operating income</b>	<b>548</b>	<b>290</b>	<b>173</b>	<b>30</b>	<b>1,041</b>
Net interest income	404	247	84	14	749
Non-interest income	144	43	89	16	292
<b>Net operating income</b>	<b>548</b>	<b>290</b>	<b>173</b>	<b>30</b>	<b>1,041</b>
Operating expenses	(99)	(36)	(25)	(267)	(427)
Impairment charges on loans	(32)	(67)	4	1	(94)
<b>Profit before income tax expense</b>	<b>417</b>	<b>187</b>	<b>152</b>	<b>(236)</b>	<b>520</b>
<b>Total gross loans</b>	<b>31,078</b>	<b>21,700</b>	<b>6,841</b>	<b>(249)</b>	<b>59,370</b>
<b>Total deposits</b>	<b>23,523</b>	<b>10,378</b>	<b>5,523</b>	<b>1,412</b>	<b>40,836</b>
<b>Six months ended 31 March 2011 (Unaudited)</b>					
Net operating income from external customers	769	551	227	(606)	941
Net internal operating income	(270)	(283)	(79)	632	-
<b>Net operating income</b>	<b>499</b>	<b>268</b>	<b>148</b>	<b>26</b>	<b>941</b>
Net interest income	361	228	79	26	694
Non-interest income	138	40	69	-	247
<b>Net operating income</b>	<b>499</b>	<b>268</b>	<b>148</b>	<b>26</b>	<b>941</b>
Operating expenses	(103)	(37)	(29)	(254)	(423)
Impairment charges on loans	(27)	(88)	5	(9)	(119)
<b>Profit before income tax expense</b>	<b>369</b>	<b>143</b>	<b>124</b>	<b>(237)</b>	<b>399</b>
<b>Total gross loans</b>	<b>30,055</b>	<b>20,858</b>	<b>6,962</b>	<b>(258)</b>	<b>57,617</b>
<b>Total deposits</b>	<b>21,961</b>	<b>9,630</b>	<b>5,389</b>	<b>1,735</b>	<b>38,715</b>
<b>Year ended 30 September 2011 (Audited)</b>					
Net operating income from external customers	1,548	1,079	457	(1,041)	2,043
Net internal operating income	(510)	(526)	(144)	1,180	-
<b>Net operating income</b>	<b>1,038</b>	<b>553</b>	<b>313</b>	<b>139</b>	<b>2,043</b>
Net interest income	755	472	164	143	1,534
Non-interest income	283	81	149	(4)	509
<b>Net operating income</b>	<b>1,038</b>	<b>553</b>	<b>313</b>	<b>139</b>	<b>2,043</b>
Operating expenses	(208)	(76)	(57)	(504)	(845)
Impairment charges on loans	(64)	(167)	(5)	10	(226)
Share of profit of associate accounted for using equity method	-	-	-	1	1
<b>Profit before income tax expense</b>	<b>766</b>	<b>310</b>	<b>251</b>	<b>(354)</b>	<b>973</b>
<b>Total gross loans</b>	<b>30,625</b>	<b>21,421</b>	<b>6,998</b>	<b>(265)</b>	<b>58,779</b>
<b>Total deposits</b>	<b>22,908</b>	<b>10,387</b>	<b>4,689</b>	<b>1,591</b>	<b>39,575</b>

## Note 13 Securitisation, funds management and other fiduciary activities

There have been no material changes in the nature of the NZ Banking Group's involvement in the following activities since 31 December 2011:

- establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities;
- origination of securitised assets, and the marketing or servicing of securitisation schemes; or
- marketing and distribution of insurance products;

including arrangements that help minimise the possibility that any difficulties arising from the above activities would impact adversely on the NZ Banking Group.

## Note 14 Insurance business

The NZ Banking Group conducts an insurance business through one of its controlled entities, Westpac Life-NZ-Limited. Its primary insurance activities are the development, underwriting and management of products under life insurance legislation which provide insurance cover against the risks of death and disability. It also manages general insurance agency arrangements whereby general insurance products are made available to NZ Banking Group customers, and underwrites some redundancy and bankruptcy risks. The insurance business comprises less than one percent of the total assets of the NZ Banking Group.

The following table presents the aggregate amount of the NZ Banking Group's insurance business calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

	NZ Banking Group 31 March 2012 Unaudited \$m
Total assets	182
As a percentage of total assets of the NZ Banking Group	0.24%

The Overseas Bank does not conduct any insurance or non-financial activities in New Zealand outside of the NZ Banking Group.

There have been no material changes in the NZ Banking Group's approach to managing its insurance business since 31 December 2011.

## Note 15 Risk management

There have been no material changes in the risk management policies of the NZ Banking Group, and no new categories of risk to which the NZ Banking Group has become exposed, since 31 December 2011.

### 15.1 Credit risk

#### Additional mortgage information

The information below relates to the residential mortgage loan-to-value ratios ('LVR') reflected in the capital calculation.

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

LVR range (\$m)	NZ Banking Group 31 March 2012 (Unaudited)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	26,851	5,483	3,143	35,477
Undrawn commitments and other off-balance sheet exposures	5,656	374	223	6,253
<b>Value of exposures</b>	<b>32,507</b>	<b>5,857</b>	<b>3,366</b>	<b>41,730</b>

#### Reconciliation of residential mortgage-related amounts

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

	NZ Banking Group 31 March 2012 Unaudited \$m
<b>Term loans – Housing (as disclosed in Note 5) and Residential mortgages – total gross loans (as disclosed in Note 6)</b>	<b>35,540</b>
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(50)
Fair value hedge adjustments	(13)
Value of undrawn commitments and other off-balance sheet expenses	6,253
<b>Residential mortgages by LVR</b>	<b>41,730</b>

### 15.2 Market risk

#### Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'. The peak end-of-day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the six month-period ended 31 March 2012. The end-of-period exposures below have been calculated by determining the end-of-day aggregate market risk as at 31 March 2012.

For each category of market risk, the peak end-of-day notional capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'.

# Notes to the financial statements

## Note 15 Risk management (continued)

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six month-period ended 31 March 2012:

	NZ Banking Group	
	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)
	Implied Risk-weighted Exposure \$m	Notional Capital Charge \$m
<b>End-of-period</b>		
Interest rate risk	2,091	167
Foreign currency risk	72	6
Equity risk	62	5
<b>Peak end-of-day</b>		
Interest rate risk	4,346	348
Foreign currency risk	172	14
Equity risk	62	5

### Interest rate sensitivity

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process, which is conducted in accordance with the NZ Banking Group policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 31 March 2012. The NZ 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.

	NZ Banking Group						Total \$m
	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)	31 March 2012 (Unaudited)	
	Up to 3 Months \$m	Over 3 Months and Up to 6 Months \$m	Over 6 Months and Up to 1 Year \$m	Over 1 Year and Up to 2 Years \$m	Over 2 Years \$m	Non-interest Bearing \$m	
<b>Financial assets</b>							
Cash and balances with central banks	1,047	-	-	-	-	224	1,271
Due from other financial institutions	159	-	-	-	-	-	159
Derivative financial instruments	-	-	-	-	-	4,676	4,676
Trading securities	3,869	113	127	102	980	-	5,191
Available-for-sale securities	26	62	-	-	2,433	62	2,583
Loans	41,556	3,177	6,042	6,001	2,594	(681)	58,689
Life insurance assets	16	17	-	-	-	177	210
Due from related entities	1	-	-	-	-	1,522	1,523
Other assets	-	-	-	-	-	307	307
<b>Total financial assets</b>	<b>46,674</b>	<b>3,369</b>	<b>6,169</b>	<b>6,103</b>	<b>6,007</b>	<b>6,287</b>	<b>74,609</b>
Non-financial assets							1,052
<b>Total assets</b>							<b>75,661</b>
<b>Financial liabilities</b>							
Due to other financial institutions	193	-	-	-	-	3	196
Deposits	27,771	4,939	3,371	959	859	2,937	40,836
Derivative financial instruments	-	-	-	-	-	4,596	4,596
Trading liabilities	782	-	-	-	-	-	782
Debt issues	5,009	2,465	668	514	5,726	-	14,382
Other liabilities	-	-	-	-	-	639	639
Subordinated debentures	-	-	-	-	728	-	728
Due to related entities	7,085	-	-	-	-	1,080	8,165
<b>Total financial liabilities</b>	<b>40,840</b>	<b>7,404</b>	<b>4,039</b>	<b>1,473</b>	<b>7,313</b>	<b>9,255</b>	<b>70,324</b>
Non-financial liabilities							159
<b>Total liabilities</b>							<b>70,483</b>
<b>Off-balance sheet financial instruments</b>							
Net interest rate contracts (notional): (Payable)/receivable	(2,692)	2,966	1,032	(3,876)	2,570	-	-

## Note 15 Risk management (continued)

## 15.3 Liquidity risk

**Liquid assets**

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

	NZ Banking Group
	31 March 2012 Unaudited \$m
Cash and balances with central bank	1,206
Supranational securities	402
NZ Government securities	2,978
NZ public securities	225
NZ corporate securities	2,806
Residential mortgage-backed securities	3,992
<b>Total liquid assets</b>	<b>11,609</b>

# Notes to the financial statements

## Note 15 Risk management (continued)

### Liquidity analysis

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

	NZ Banking Group						Total \$m
	31 March 2012 (Unaudited)						
	On Demand \$m	Less Than 1 Month \$m	Over 1 Month to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	
<b>Financial assets</b>							
Cash and balances with central banks	1,271	-	-	-	-	-	1,271
Due from other financial institutions	-	159	-	-	-	-	159
Derivative financial instruments:							
Held for trading	4,351	-	-	-	-	-	4,351
Held for hedging purposes (net settled)	-	(5)	17	35	147	-	194
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(7)	(252)	(447)	-	(706)
Cash inflow	-	-	-	245	428	-	673
Trading securities	-	1,323	2,200	328	1,093	365	5,309
Available-for-sale securities	-	76	20	1,216	148	1,647	3,107
Loans	6,830	6,948	4,254	4,849	19,554	45,339	87,774
Life insurance assets	182	-	11	17	-	-	210
Due from related entities:							
Non-derivative balances	10	-	-	-	-	-	10
Derivative financial instruments:							
Held for trading	1,513	-	-	-	-	-	1,513
Other assets	-	307	-	-	-	-	307
<b>Total undiscounted financial assets</b>	<b>14,157</b>	<b>8,808</b>	<b>6,495</b>	<b>6,438</b>	<b>20,923</b>	<b>47,351</b>	<b>104,172</b>
<b>Financial liabilities</b>							
Due to other financial institutions	174	22	-	-	-	-	196
Deposits	16,244	8,111	6,568	8,604	1,994	-	41,521
Derivative financial instruments:							
Held for trading	3,727	-	-	-	-	-	3,727
Held for hedging purposes (net settled)	-	45	16	97	143	9	310
Held for hedging purposes (gross settled):							
Cash outflow	-	7	38	903	4,793	-	5,741
Cash inflow	-	-	(57)	(737)	(4,010)	-	(4,804)
Trading liabilities	478	305	-	-	-	-	783
Debt issues	-	798	2,613	4,478	7,362	-	15,251
Other liabilities	-	639	-	-	-	-	639
Subordinated debentures	-	-	-	-	-	728	728
Due to related entities:							
Non-derivative balances	4,366	48	-	99	3,340	-	7,853
Derivative financial instruments:							
Held for trading	921	-	-	-	-	-	921
<b>Total undiscounted financial liabilities</b>	<b>25,910</b>	<b>9,975</b>	<b>9,178</b>	<b>13,444</b>	<b>13,622</b>	<b>737</b>	<b>72,866</b>
<b>Total contingent liabilities and commitments</b>							
Loan commitments with certain drawdown	160	-	-	-	-	-	160
Other commitments to provide financial services	18,186	-	-	-	-	-	18,186
<b>Total undiscounted contingent liabilities and commitments</b>	<b>18,346</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,346</b>



## Note 16 Concentration of funding

	NZ Banking Group
	31 March 2012 Unaudited \$m
<b>Funding consists of</b>	
Due to other financial institutions	196
Deposits	40,836
Trading liabilities	782
Debt issues <sup>1</sup>	14,382
Subordinated debentures	728
Due to related entities <sup>2</sup>	7,085
<b>Total funding</b>	<b>64,009</b>
<b>Analysis of funding by product</b>	
Certificates of deposits	1,412
Savings accounts	9,045
Demand deposits	8,741
Other deposits	694
Term deposits	20,944
Securities sold short and under agreements to repurchase	782
Debt issues	14,382
Subordinated debentures	728
<b>Subtotal</b>	<b>56,728</b>
Due to other financial institutions	196
Due to related entities <sup>2</sup>	7,085
<b>Total funding</b>	<b>64,009</b>
<b>Analysis of funding by geographical areas<sup>1</sup></b>	
New Zealand	40,449
Australia	5,842
United Kingdom	2,233
United States of America	5,675
Other	9,810
<b>Total funding by geographical areas</b>	<b>64,009</b>
<b>Analysis of funding by industry sector</b>	
Accommodation, cafes and restaurants	216
Agriculture	1,009
Construction	995
Finance and insurance	25,110
Forestry and fishing	141
Government, administration and defence	937
Manufacturing	1,176
Mining	96
Property	3,191
Services	3,580
Trade	1,158
Transport and storage	277
Utilities	323
Retail	16,293
Other	2,422
<b>Subtotal</b>	<b>56,924</b>
Due to related entities <sup>2</sup>	7,085
<b>Total funding by industry sector</b>	<b>64,009</b>

1 The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes 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 have been used as the basis for disclosing industry sectors.

# Notes to the financial statements

## Note 17 Concentration of credit exposures

	NZ Banking Group
	31 March 2012 Unaudited \$m
<b>On-balance sheet credit exposures consist of</b>	
Cash and balances with central banks	1,271
Due from other financial institutions	159
Derivative financial instruments	4,676
Trading securities	5,191
Available-for-sale securities	2,583
Loans	58,689
Life insurance assets	210
Due from related entities	1,523
Other assets	307
<b>Total on-balance sheet credit exposures</b>	<b>74,609</b>
<b>Analysis of on-balance sheet credit exposures by industry sector</b>	
Accommodation, cafes and restaurants	543
Agriculture	6,015
Construction	1,423
Finance and insurance	9,801
Forestry and fishing	287
Government, administration and defence	5,956
Manufacturing	2,608
Mining	272
Property	10,095
Property services and business services	1,947
Services	2,832
Trade	3,416
Transport and storage	1,399
Utilities	1,287
Retail lending	25,752
Other	44
<b>Subtotal</b>	<b>73,677</b>
Provisions for impairment charges on loans	(681)
Due from related entities	1,523
Other assets	90
<b>Total on-balance sheet credit exposures</b>	<b>74,609</b>
<b>Off-balance sheet credit exposures</b>	
Contingent liabilities and commitments	19,781
<b>Total off-balance sheet credit exposures</b>	<b>19,781</b>
<b>Analysis of off-balance sheet credit exposures by industry sector</b>	
Accommodation, cafes and restaurants	84
Agriculture	653
Construction	368
Finance and insurance	2,020
Forestry and fishing	55
Government, administration and defence	862
Manufacturing	1,421
Mining	351
Property services and business services	3,012
Trade	2,078
Transport and storage	587
Utilities	1,720
Retail lending	6,561
Other	9
<b>Total off-balance sheet credit exposures</b>	<b>19,781</b>

Australian and New Zealand Standard Industrial Classifications 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 NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

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

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

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

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at 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 do not include exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

## Note 18 Overseas Bank and Overseas Banking Group capital adequacy

	31 March 2012 Unaudited %	31 March 2011 Unaudited %
<b>Overseas Banking Group<sup>1</sup></b>		
Tier One Capital ratio	<b>9.8</b>	9.5
Total Capital ratio	<b>10.8</b>	11.0
<b>Overseas Bank (Extended Licensed Entity)<sup>1</sup></b>		
Tier One Capital ratio	<b>9.8</b>	9.5
Total Capital ratio	<b>11.1</b>	11.3

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

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

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

The Overseas Banking Group's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an Australian authorised deposit-taking institution. The Overseas Banking Group considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

The Overseas Banking Group details these considerations through an Internal Capital Adequacy Assessment Process, the key features of which include:

- the development of a capital management strategy including target capital ratios, capital buffers and contingency plans which guide the development of specific capital plans;
- consideration of both economic and regulatory capital requirements;
- a process that challenges the capital measures, coverage and requirements which incorporates a comparison of economic and regulatory requirements and the use of the Quantitative Scenario Analysis (stress testing) framework that considers among others, the impact of adverse economic scenarios that threaten the achievement of planned outcomes; and
- consideration of the perspectives of external stakeholders such as regulators, rating agencies and equity investors.

# Notes to the financial statements

## Note 19 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2012.

	31 March 2012 Unaudited
<b>Profitability</b>	
Net profit after tax for the six months ended 31 March 2012 (A\$m)	3,001
Net profit after tax (for the 12 month period to 31 March 2012) as a percentage of average total assets	0.9%

	As at 31 March 2012 Unaudited
<b>Total assets and equity</b>	
Total assets (A\$m)	653,932
Percentage change in total assets for the 12 months ended 31 March 2012	5.1%
Total equity (A\$m)	44,875

	As at 31 March 2012 Unaudited
<b>Asset quality</b>	
Total individually impaired assets <sup>1, 2</sup> (A\$m)	4,014
As a percentage of total assets	0.6%
Total individual credit impairment allowance (A\$m)	1,482
As a percentage of total individually impaired assets	36.9%
Total collective credit impairment allowance (A\$m)	2,909

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

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

## Note 20 Events after the reporting date

On 2 April 2012, WSNZL issued covered bonds of CHF325 million (\$435 million) which are guaranteed by WNZCBL under the NZ Banking Group's global covered bond programme (refer to Note 5 Loans for further details of this programme).

On 25 May 2012, USD1,500 million (\$1,993 million) of New Zealand Government guaranteed, non-domestic medium term notes of the NZ Banking Group matured.

# Independent auditors' review report



## Independent Auditors' Review Report

To the Directors of Westpac Banking Corporation

### ***Report on the Financial Statements***

We have reviewed pages 6 to 26 of the half year Disclosure Statement which consists of the financial statements required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012 (the "Order") and the supplementary information required by Schedules 5, 7, 9, 10, 12 and 14 of the Order. The financial statements comprise the balance sheet as at 31 March 2012, 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 aggregated results of Westpac Banking Corporation New Zealand Division (the "NZ Banking Group").

### ***Directors' Responsibility for the Financial Statements***

The Directors of Westpac Banking Corporation (the "Directors") are responsible for the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and that present fairly the financial position of the NZ Banking Group as at 31 March 2012, 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, 9, 10, 12 and 14 of the Order.

### ***Reviewers' Responsibility***

We are responsible for reviewing the financial statements and the supplementary information, disclosed in accordance with Clause 26, Schedules 5, 7, 9, 10, 12 and 14 of the Order and presented to us 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 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 credit and market risk exposures and 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, 10, 12 and 14 of the Order.

We are responsible for reviewing the supplementary information relating to credit and market risk exposures and 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 Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A); and
- (b) disclosed in accordance with Schedule 9 of the Order.

## Independent auditors' review report (continued)



A review is limited primarily to enquiries of the NZ 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 NZ Banking Group for the six months ended 31 March 2012 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We carry out other assignments on behalf of the NZ Banking Group in the areas of taxation advice and other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the NZ Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the NZ Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the NZ Banking Group. We have no other interests in the NZ 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 6 to 26 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present fairly the financial position of the NZ Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date;
- (b) the supplementary information prescribed by Schedules 5, 7, 10, 12 and 14 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 credit and market risk exposures and capital adequacy prescribed by Schedule 9 of the Order, is not, in all material respects:
  - (i) prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A); and
  - (ii) disclosed in accordance with Schedule 9 of the Order.

### **Restriction on Distribution or Use**

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state to the Directors 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 NZ Banking Group and the Directors, as a body, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'. Below the signature is a long, horizontal, slightly curved line.

30 May 2012  
Chartered Accountants

Auckland



