

Westpac Banking Corporation - New Zealand Banking Group **Disclosure Statement**

For the six months ended 31 March 2014



Index	1	General information and definitions
	1	General matters
	1	Auditors
	2	Credit ratings
	2	Disclosure statements of the Overseas Bank and the financial statements of the Overseas Bank and the Overseas Banking Group
	2	Guarantee arrangements
	2	Pending proceedings or arbitration
	2	Conditions of registration
	3	Directors' and the Chief Executive Officer, NZ Branch's statement
	4	Index to financial statements
	26	Independent auditors' review report

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 2014 ('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 Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2013 are set out in Note 26 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2013. Except as detailed in Note 10 to the financial statements included in this Disclosure Statement, there have been no other changes in the structure or composition of the NZ Banking Group since 30 September 2013;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations).

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

General matters

Directors

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

Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD – Chairman

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

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

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

Catriona Alison Deans, BA, MBA, GAICD

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

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

Peter Ralph Marriott, BEc (Hons.), FCA

Ann Darlene Pickard, BA, MA

Changes to the Directorate

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2013:

- Gordon Cairns retired from the Board on 13 December 2013;
- Catriona Alison Deans was appointed to the Board, effective 1 April 2014; and
- John Curtis retired from the Board on 25 April 2014.

Chief Executive Officer, NZ Branch

Karen Lee Ann Silk, B.Com

Responsible person

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

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

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. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2013 and for the six months ended 31 March 2014, respectively, and can be accessed at the internet address 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.

Pending proceedings or arbitration

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

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. Proceedings have been filed against two banks and the plaintiff group has announced their intention to file proceedings against the remaining three banks (including Westpac New Zealand). To date, no such proceedings have been filed against Westpac New Zealand. At this stage the impact of any such potential proceeding cannot be determined with any certainty.

On 12 December 2013, the Commerce Commission notified the Overseas Bank and Westpac New Zealand that it intends filing proceedings against them under the Fair Trading Act 1986 in relation to the marketing and sale of interest rate swaps to rural customers. To date, no such proceedings have been filed and the Commerce Commission has advised that it anticipates making a further announcement mid-year. At this stage the impact of this notification cannot be determined with any certainty.

The Overseas Banking Group has worldwide contingent liabilities in respect of actual and potential claims and proceedings, which have not been determined. An assessment of the Overseas Banking Group's likely loss is made on a case-by-case basis and provisions are made where appropriate. Such contingencies are disclosed in the Overseas Banking Group's 30 September 2013 Annual Financial Report and 31 March 2014 Interim Financial Report.

Conditions of registration

The Overseas Bank's conditions of registration were amended on 27 March 2014 with effect from 30 March 2014. The reference to the 'Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19)' was revised to refer to the latest version of BS19. The principal amendment to BS19 has been to add an exemption for new residential construction loans from the high loan-to-valuation residential mortgage lending restrictions. Certain definitions in the conditions of registration were also amended to ensure that they are defined in accordance with the Financial Reporting Act 2013 unless the Financial Reporting Act 1993 still applies.

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 2014:

- (a) the Overseas Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- (b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group.

This Disclosure Statement has been signed on behalf of the Directors by Peter Graham Clare, Chief Executive, Westpac New Zealand, and by Karen Lee Ann Silk, as Chief Executive Officer, NZ Branch.



Peter Graham Clare



Karen Lee Ann Silk

Dated this the 28th day of May 2014

Index to financial statements

Page	Contents
5	Consolidated income statement
6	Consolidated statement of comprehensive income
7	Consolidated statement of changes in equity
8	Consolidated balance sheet
9	Consolidated statement of cash flows
10	Notes to the financial statements
10	Note 1 Statement of accounting policies
11	Note 2 Non-interest income
12	Note 3 Impairment charges on loans
12	Note 4 Trading securities
12	Note 5 Loans
13	Note 6 Credit quality, impaired assets and provisions for impairment charges on loans
14	Note 7 Deposits
14	Note 8 Trading liabilities
14	Note 9 Debt issues
15	Note 10 Related entities
15	Note 11 Fair value of financial instruments
17	Note 12 Commitments and contingent liabilities
17	Note 13 Segment information
18	Note 14 Insurance business
19	Note 15 Risk management
19	15.1 Credit risk
19	15.2 Market risk
20	15.3 Liquidity risk
22	Note 16 Concentration of funding
23	Note 17 Concentration of credit exposures
24	Note 18 Overseas Bank and Overseas Banking Group capital adequacy
25	Note 19 Other information on the Overseas Banking Group
25	Note 20 Events after the reporting date
26	Independent auditors' review report

Consolidated income statement for the six months ended 31 March 2014

\$ millions	Note	NZ Banking Group		
		Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Interest income		1,928	1,903	3,801
Interest expense		(1,159)	(1,124)	(2,223)
Net interest income		769	779	1,578
Non-interest income	2	336	284	585
Net operating income		1,105	1,063	2,163
Operating expenses		(434)	(452)	(877)
Impairment charges on loans	3	(3)	(56)	(105)
Operating profit		668	555	1,181
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		668	555	1,182
Income tax expense		(172)	(155)	(327)
Profit after income tax expense		496	400	855
Profit after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		495	398	852
Non-controlling interests		1	2	3
		496	400	855

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 2014

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Profit after income tax expense	496	400	855
Other comprehensive (expense)/income which may be reclassified to the income statement:			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	23	33	23
Transferred to the income statement (refer to Note 2)	(48)	-	-
Exchange differences	(2)	-	1
Income tax effect	(3)	(4)	2
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	26	(19)	34
Transferred to the income statement	(7)	25	30
Income tax effect	(5)	(2)	(18)
Total other comprehensive (expense)/income which may be reclassified to the income statement	(16)	33	72
Other comprehensive income which will not be reclassified to the income statement:			
Actuarial gains on employee defined benefit obligations	-	6	39
Income tax effect	-	(2)	(11)
Total other comprehensive income which will not be reclassified to the income statement	-	4	28
Total other comprehensive (expense)/income, net of tax	(16)	37	100
Total comprehensive income	480	437	955
Total comprehensive income attributable to:			
Head office account and owners of the NZ Banking Group	479	435	952
Non-controlling interests	1	2	3
	480	437	955

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 2014

\$ millions	NZ Banking Group									
	Head Office Account			NZ Banking Group Equity				Total before Non-controlling Interests	Non-controlling Interests	Total Equity
	Branch Capital	Retained Profits	Convertible Debentures	Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve			
As at 1 October 2012 as previously reported (Audited)	1,300	213	1,284	139	2,526	80	(34)	5,508	7	5,515
Adjustments due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	16	-	-	16	-	16
As at 1 October 2012 (Restated)	1,300	213	1,284	139	2,542	80	(34)	5,524	7	5,531
Six months ended 31 March 2013 (Unaudited)										
Profit after income tax expense	-	96	-	-	302	-	-	398	2	400
Net gains/(losses) from changes in fair value	-	-	-	-	-	33	(19)	14	-	14
Income tax effect	-	-	-	-	-	(4)	5	1	-	1
Exchange differences	-	-	-	-	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	-	-	25	25	-	25
Income tax effect	-	-	-	-	-	-	(7)	(7)	-	(7)
Actuarial gains on employee defined benefit obligations	-	-	-	-	6	-	-	6	-	6
Income tax effect	-	-	-	-	(2)	-	-	(2)	-	(2)
Total comprehensive income for the six months ended 31 March 2013	-	96	-	-	306	29	4	435	2	437
Transactions with owners:										
Dividends paid on convertible debentures (net of tax)	-	(36)	-	-	-	-	-	(36)	-	(36)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(4)	(4)
As at 31 March 2013 (Unaudited)	1,300	273	1,284	139	2,848	109	(30)	5,923	5	5,928
Year ended 30 September 2013 (Audited)										
Profit after income tax expense	-	201	-	-	651	-	-	852	3	855
Net gains from changes in fair value	-	-	-	-	-	23	34	57	-	57
Income tax effect	-	-	-	-	-	2	(10)	(8)	-	(8)
Exchange differences	-	-	-	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	-	-	30	30	-	30
Income tax effect	-	-	-	-	-	-	(8)	(8)	-	(8)
Actuarial gains on employee defined benefit obligations	-	-	-	-	39	-	-	39	-	39
Income tax effect	-	-	-	-	(11)	-	-	(11)	-	(11)
Total comprehensive income for the year ended 30 September 2013	-	201	-	-	679	26	46	952	3	955
Transactions with owners:										
Redemption of convertible debentures	-	(9)	(1,284)	-	-	-	-	(1,293)	-	(1,293)
Dividends paid on convertible debentures (net of tax)	-	(66)	-	-	-	-	-	(66)	-	(66)
Dividends paid on ordinary shares	-	-	-	-	(323)	-	-	(323)	(4)	(327)
As at 30 September 2013 (Audited)	1,300	339	-	139	2,898	106	12	4,794	6	4,800
Adjustment due to amendments in NZ IAS 19 (refer to Note 1)	-	-	-	-	(3)	-	-	(3)	-	(3)
As at 30 September 2013 (Restated)	1,300	339	-	139	2,895	106	12	4,791	6	4,797
Six months ended 31 March 2014 (Unaudited)										
Profit after income tax expense	-	48	-	-	447	-	-	495	1	496
Net gains from changes in fair value	-	-	-	-	-	23	26	49	-	49
Income tax effect	-	-	-	-	-	(3)	(7)	(10)	-	(10)
Exchange differences	-	-	-	-	-	(2)	-	(2)	-	(2)
Income tax effect	-	-	-	-	-	-	-	-	-	-
Transferred to the income statement	-	-	-	-	-	(48)	(7)	(55)	-	(55)
Income tax effect	-	-	-	-	-	-	2	2	-	2
Total comprehensive income for the six months ended 31 March 2014	-	48	-	-	447	(30)	14	479	1	480
Transactions with owners:										
Aggregation of new entities (refer to Note 10)	-	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(3)	(3)
As at 31 March 2014 (Unaudited)	1,300	387	-	143	3,342	76	26	5,274	4	5,278

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 2014

\$ millions	Note	NZ Banking Group		
		31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Assets				
Cash and balances with central banks		1,666	1,964	1,848
Due from other financial institutions		259	487	173
Derivative financial instruments		3,552	4,264	3,661
Trading securities	4	5,127	4,132	4,313
Available-for-sale securities		2,691	2,830	2,715
Loans	5, 6	63,604	60,371	62,037
Life insurance assets		266	257	289
Due from related entities		1,064	1,653	1,036
Investment in associate		48	48	48
Goodwill and other intangible assets		729	671	714
Property, plant and equipment		164	165	169
Current tax assets		23	5	-
Deferred tax assets		128	199	154
Other assets		265	328	397
Total assets		79,586	77,374	77,554
Liabilities				
Due to other financial institutions		399	629	335
Deposits	7	49,665	46,068	48,182
Derivative financial instruments		3,591	4,410	3,786
Trading liabilities	8	1,202	674	498
Debt issues	9	12,257	11,651	11,645
Current tax liabilities		-	-	24
Provisions		76	86	87
Other liabilities		722	798	671
Total liabilities excluding related entities liabilities		67,912	64,316	65,228
Subordinated debentures		652	700	693
Due to related entities		5,744	6,430	6,836
Total related entities liabilities		6,396	7,130	7,529
Total liabilities		74,308	71,446	72,757
Net assets		5,278	5,928	4,797
Equity				
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		387	273	339
Total head office account		1,687	1,573	1,639
Convertible debentures		-	1,284	-
NZ Banking Group equity				
Ordinary share capital		143	139	139
Retained profits		3,342	2,848	2,895
Available-for-sale securities reserve		76	109	106
Cash flow hedge reserve		26	(30)	12
Total equity attributable to owners of the NZ Banking Group		3,587	3,066	3,152
Non-controlling interests		4	5	6
Total equity		5,278	5,928	4,797
Interest earning and discount bearing assets		73,664	70,103	71,369
Interest and discount bearing liabilities		65,269	61,806	63,671

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 2014

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited ¹	Year Ended 30-Sep-13 Audited ¹
Cash flows from operating activities			
Interest income received	1,912	1,887	3,801
Interest expense paid	(1,165)	(1,137)	(2,225)
Non-interest income received	267	293	646
Operating expenses paid	(398)	(381)	(800)
Income tax paid	(200)	(200)	(305)
Cash flows from operating activities before changes in operating assets and liabilities	416	462	1,117
Net (increase)/decrease in:			
Due from other financial institutions	(38)	(15)	149
Trading securities	(598)	32	(363)
Loans	(1,590)	(535)	(2,250)
Due from related entities	(89)	(76)	(21)
Net increase/(decrease) in:			
Due to other financial institutions	64	415	121
Deposits	1,483	2,678	4,792
Trading liabilities	704	156	(20)
Net movement in external and related entity derivative financial instruments	(350)	(467)	757
Net cash provided by operating activities	2	2,650	4,282
Cash flows from investing activities			
Purchase of available-for-sale securities	(43)	(146)	(191)
Proceeds from maturities/sale of available-for-sale securities	83	-	26
Net decrease/(increase) in life insurance assets	23	(20)	(52)
Purchase of capitalised computer software	(38)	(38)	(98)
Purchase of property, plant and equipment	(6)	(15)	(37)
Net cash provided by/(used in) investing activities	19	(219)	(352)
Cash flows from financing activities			
Net increase/(decrease) in debt issues	897	(1,189)	(1,453)
Net decrease in due to related entities	(1,049)	(788)	(632)
Net decrease in convertible debentures	-	-	(1,293)
Dividends paid on convertible debentures	-	(50)	(91)
Dividends paid to ordinary shareholders	-	-	(323)
Dividends paid to minority shareholders	(3)	(4)	(4)
Net cash used in financing activities	(155)	(2,031)	(3,796)
Net (decrease)/increase in cash and cash equivalents	(134)	400	134
Cash and cash equivalents at beginning of the period/year	1,848	1,714	1,714
Cash and cash equivalents at end of the period/year	1,714	2,114	1,848
Cash and cash equivalents at end of the period/year comprise:			
Cash and balances with central banks	1,666	1,964	1,848
Due from other financial institutions	48	150	-
Cash and cash equivalents at end of the period/year	1,714	2,114	1,848

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

The accompanying notes (numbered 1 to 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

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 Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations).

These consolidated financial statements have been prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('**Order**') and the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**').

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* ('**NZ IAS 34**') and should be read in conjunction with the Disclosure Statements for the year ended 30 September 2013 and for the three months ended 31 December 2013. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

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

- NZ IFRS 9 (2013) *Financial Instruments* ('**NZ IFRS 9 (2013)**') – NZ IFRS 9 (2013) was issued by the External Reporting Board in December 2013. Unless early adopted, the standard is effective for the 30 September 2018 financial year. The NZ Banking Group has early adopted the recognition of the change in the portion of the fair value of financial liabilities designated at fair value which is attributable to the NZ Banking Group's own credit risk in other comprehensive income except where that would create an accounting mismatch. Where an accounting mismatch occurs, all changes in fair value are recognised in the income statement. The impact of the change on individual line items in the financial statements is not material.
- NZ IFRS 13 *Fair Value Measurement* ('**NZ IFRS 13**') – The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. NZ IFRS 13 applies to all assets and liabilities measured at fair value, not just financial instruments. NZ IAS 34 requires the disclosure of certain information relating to fair value as prescribed in NZ IFRS 13 and accordingly this disclosure is provided in Note 11 Fair value of financial instruments.
- NZ IAS 19 *Employee Benefits* ('**NZ IAS 19**') – The amended standard has resulted in changes to the discount rate applied to the measurement of the NZ Banking Group's defined benefit superannuation obligation with retrospective application.

Adoption of the amendment has resulted in adjustments to comparative information as outlined below. The adjustments in respect of the 30 September 2012 balance sheet have also been applied to the 31 March 2013 balance sheet. The impact on the comparative consolidated income statements and consolidated statements of comprehensive income is not material and therefore these statements have not been restated.

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

These financial statements were authorised for issue by the Overseas Bank's Board of Directors ('**Board**') on 28 May 2014. The Board has the power to amend the financial statements after they are authorised for issue.

Note 1 Statement of accounting policies (continued)

Basis of preparation

These financial statements are based on the general principles of historical cost accounting, as modified by fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2013, except as amended for the changes required due to the adoption of the new and amended accounting standards as explained in the 'Statutory base' section.

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

Note 2 Non-interest income

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-14 Unaudited	Six Months Ended 31-Mar-13 Unaudited	Year Ended 30-Sep-13 Audited
Fees and commissions			
Transaction fees and commissions	112	117	233
Lending fees (loan and risk)	33	32	66
Other non-risk fee income	19	15	35
Total fees and commissions	164	164	334
Wealth management revenue			
Fees from trust and other fiduciary activities	17	15	33
Net life insurance income and change in policy liabilities	47	41	82
Total wealth management revenue	64	56	115
Trading income			
Foreign exchange trading	44	42	86
Interest rate trading	11	12	39
Total trading income	55	54	125
Net ineffectiveness on qualifying hedges	-	(1)	(1)
Other non-interest income			
Net losses on derivatives held for risk management purposes	-	(1)	(1)
Dividend income	1	1	2
Gain on sale of available-for-sale securities ¹	48	-	-
Other	4	11	11
Total other non-interest income	53	11	12
Total non-interest income	336	284	585

¹ During the six months ended 31 March 2014, Westpac New Zealand realised a gain of \$48 million upon the sale of \$58 million of available-for-sale overseas equity securities. In April 2014, Westpac New Zealand sold its remaining overseas equity securities to the Overseas Bank for \$50 million, realising a gain of \$41 million.

Notes to the financial statements

Note 3 Impairment charges on loans

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Six months ended 31 March 2014 (Unaudited)				
Collectively assessed provisions	1	9	(5)	5
Individually assessed provisions	6	-	(10)	(4)
Bad debts written-off/(recovered) directly to the income statement	1	20	(4)	17
Interest adjustments	(2)	(5)	(8)	(15)
Total impairment charges/(recoveries) on loans	6	24	(27)	3
Six months ended 31 March 2013 (Unaudited)				
Collectively assessed provisions	-	6	5	11
Individually assessed provisions	15	-	8	23
Bad debts written-off directly to the income statement	1	19	15	35
Interest adjustments	(1)	(4)	(8)	(13)
Total impairment charges on loans	15	21	20	56
Year ended 30 September 2013 (Audited)				
Collectively assessed provisions	7	4	(23)	(12)
Individually assessed provisions	27	-	55	82
Bad debts written-off directly to the income statement	3	39	21	63
Interest adjustments	(4)	(10)	(14)	(28)
Total impairment charges on loans	33	33	39	105

Note 4 Trading securities

\$ millions	NZ Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Certificates of deposit	2,548	2,146	2,314
Corporate bonds and asset backed securities	612	519	643
Mortgage-backed securities	3	4	3
NZ Government securities	1,235	466	480
Local authority securities	355	405	410
Offshore securities	-	-	19
Securities purchased under agreement to resell	374	592	444
Total trading securities	5,127	4,132	4,313

As at 31 March 2014, the NZ Banking Group had \$545 million of trading securities (31 March 2013: \$200 million, 30 September 2013: \$74 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 5 Loans

\$ millions	NZ Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Overdrafts	1,219	1,194	1,281
Credit card outstandings	1,380	1,337	1,352
Money market loans	1,052	1,144	997
Term loans:			
Housing	38,669	36,537	37,596
Non-housing	20,907	19,981	20,542
Other	832	788	821
Total gross loans	64,059	60,981	62,589
Provisions for impairment charges on loans	(455)	(610)	(552)
Total net loans	63,604	60,371	62,037

As at 31 March 2014, \$3.7 billion of housing loans are used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand's Global Covered Bond Programme ('CB Programme') (31 March 2013: \$2.8 billion, 30 September 2013: \$4.2 billion). These housing loans were not derecognised from Westpac New Zealand's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013. As at 31 March 2014, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2.1 billion (31 March 2013: \$1.9 billion, 30 September 2013: \$2.2 billion).

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

\$ millions	NZ Banking Group 31-Mar-14 (Unaudited)			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Neither past due nor impaired	37,406	1,762	22,857	62,025
Past due assets				
Less than 30 days past due	952	113	257	1,322
At least 30 days but less than 60 days past due	120	22	43	185
At least 60 days but less than 90 days past due	48	11	2	61
At least 90 days past due	61	17	37	115
Total past due assets	1,181	163	339	1,683
Individually impaired assets¹				
Balance at beginning of the period	93	-	480	573
Additions	42	-	28	70
Amounts written off	(10)	-	(85)	(95)
Returned to performing or repaid	(43)	-	(154)	(197)
Balance at end of the period	82	-	269	351
Total gross loans²	38,669	1,925	23,465	64,059
Individually assessed provisions				
Balance at beginning of the period	30	-	203	233
Impairment charges on loans:				
New provisions	13	-	16	29
Recoveries	(1)	-	(2)	(3)
Reversal of previously recognised impairment charges on loans	(6)	-	(24)	(30)
Amounts written off	(10)	-	(85)	(95)
Interest adjustments	-	-	1	1
Balance at end of the period	26	-	109	135
Collectively assessed provisions				
Balance at beginning of the period	68	67	219	354
Impairment charges/(recoveries) on loans	1	9	(5)	5
Balance at end of the period	69	76	214	359
Total provisions for impairment charges on loans and credit commitments	95	76	323	494
Provision for credit commitments	-	-	(39)	(39)
Total provisions for impairment charges on loans	95	76	284	455
Total net loans	38,574	1,849	23,181	63,604

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

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

Notes to the financial statements

Note 7 Deposits

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

The NZ Branch held no retail deposits from individuals as at 31 March 2014 (31 March 2013: nil, 30 September 2013: nil).

Note 8 Trading liabilities

\$ millions	NZ Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Held for trading			
Securities sold short	657	474	424
Securities sold under agreements to repurchase	545	200	74
Total trading liabilities	1,202	674	498

Note 9 Debt issues

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

As at 31 March 2014, the NZ Banking Group had New Zealand Government guaranteed debt of \$1,824 million on issue (31 March 2013: \$1,897 million, 30 September 2013: \$1,881 million). For further information on New Zealand Government guaranteed debt refer to Guarantee arrangements in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2014.

Note 10 Related entities

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

On 31 December 2013, the Overseas Banking Group acquired select businesses of Lloyds Banking Group Australia. As a result of this acquisition the following entities have been included in the NZ Banking Group's aggregation as at 31 March 2014:

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

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

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

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 March 2014, amounted to \$5,153 million (31 March 2013: \$5,590 million, 30 September 2013: \$4,498 million).

Note 11 Fair value of financial instruments

Fair valuation control framework

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

Quoted price in an active market

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

Valuation techniques

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

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

Fair value hierarchy

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

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

Notes to the financial statements

Note 11 Fair value of financial instruments (continued)

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

\$ millions	NZ Banking Group 31-Mar-14 (Unaudited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Derivative financial instruments	1	3,550	1	3,552
Trading securities	783	4,344	-	5,127
Available-for-sale securities	2,027	636	28	2,691
Life insurance assets	22	244	-	266
Due from related entities	-	953	-	953
Total financial assets carried at fair value	2,833	9,727	29	12,589
Financial liabilities				
Deposits at fair value	-	1,307	-	1,307
Derivative financial instruments	1	3,587	3	3,591
Trading liabilities	657	545	-	1,202
Debt issues at fair value	-	2,656	-	2,656
Due to related entities	-	1,132	-	1,132
Total financial liabilities carried at fair value	658	9,227	3	9,888

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

In the second quarter of the financial year, the Overseas Bank, being a primary dealer, has seen and participated in increased liquidity in the Government bond markets as part of its broader financial markets strategy. Therefore, financial assets (certain NZ Government securities) and financial liabilities (NZ Government securities sold short) of \$2,749 million and \$657 million respectively, have been transferred from Level 2 to Level 1 of the fair value hierarchy. There have been no significant transfers into/out of Level 3 during the six months ended 31 March 2014. Transfers in and transfers out are reported using the end-of-period fair values.

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value disclosure does not cover those instruments that are not considered to be financial instruments from an accounting perspective, such as income tax and intangible assets.

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

\$ millions	NZ Banking Group 31-Mar-14 (Unaudited)	
	Total Carrying Amount	Estimated Fair Value
Financial assets		
Loans	63,604	63,420
Total financial assets	63,604	63,420
Financial liabilities		
Deposits	48,358	48,412
Debt issues	9,601	9,734
Subordinated debentures	652	634
Total financial liabilities	58,611	58,780

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

Note 12 Commitments and contingent liabilities

\$ millions	NZ Banking Group		
	31-Mar-14 Unaudited	31-Mar-13 Unaudited	30-Sep-13 Audited
Commitments for capital expenditure			
Due within one year	3	5	3
Other expenditure commitments:			
One year or less	103	115	108
Between one and five years	178	245	209
Over five years	1	2	1
Total other expenditure commitments	282	362	318
Lease commitments (all leases are classified as operating leases)			
Premises and sites	247	251	263
Motor vehicles	7	9	7
Total lease commitments	254	260	270
Lease commitments are due as follows:			
One year or less	52	50	54
Between one and five years	142	132	145
Over five years	60	78	71
Total lease commitments	254	260	270
Other contingent liabilities and commitments			
Direct credit substitutes	335	334	330
Loan commitments with certain drawdown	194	163	205
Transaction-related contingent items	752	899	818
Short-term, self-liquidating trade-related contingent liabilities	417	397	386
Other commitments to provide financial services	20,132	18,728	19,460
Total other contingent liabilities and commitments	21,830	20,521	21,199

Note 13 Segment information

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

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

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

The NZ Banking Group's operating segments have changed in the current reporting period as a result of changes in the information provided to the 'chief operating decision maker'. Comparative information has been restated to ensure consistent presentation with the current reporting period. The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

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

Reconciling items primarily represent:

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

Notes to the financial statements

Note 13 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items ¹	
Six months ended 31 March 2014 (Unaudited)					
Net interest income	359	165	200	45	769
Non-interest income	99	89	94	54	336
Net operating income	458	254	294	99	1,105
Net operating income from external customers	605	269	484	(253)	1,105
Net internal interest expense	(147)	(15)	(190)	352	-
Net operating income	458	254	294	99	1,105
Operating expenses	(68)	(37)	(39)	(290)	(434)
Impairment (charges)/recoveries on loans	(27)	(3)	13	14	(3)
Profit before income tax expense	363	214	268	(177)	668
Total gross loans	29,456	13,754	20,985	(136)	64,059
Total deposits	22,521	13,654	12,183	1,307	49,665
Six months ended 31 March 2013 (Unaudited)					
Net interest income	347	157	203	72	779
Non-interest income	95	83	107	(1)	284
Net operating income	442	240	310	71	1,063
Net operating income from external customers	572	256	505	(270)	1,063
Net internal interest expense	(130)	(16)	(195)	341	-
Net operating income	442	240	310	71	1,063
Operating expenses	(72)	(38)	(39)	(303)	(452)
Impairment charges on loans	(32)	(1)	(23)	-	(56)
Profit before income tax expense	338	201	248	(232)	555
Total gross loans	27,660	13,058	20,459	(196)	60,981
Total deposits	21,198	12,955	10,879	1,036	46,068
Year ended 30 September 2013 (Audited)					
Net interest income	701	315	408	154	1,578
Non-interest income	196	166	239	(16)	585
Net operating income	897	481	647	138	2,163
Net operating income from external customers	1,151	502	1,031	(521)	2,163
Net internal interest expense	(254)	(21)	(384)	659	-
Net operating income	897	481	647	138	2,163
Operating expenses	(139)	(77)	(79)	(582)	(877)
Impairment charges on loans	(63)	(2)	(41)	1	(105)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	695	402	527	(442)	1,182
Total gross loans	28,590	13,414	20,745	(160)	62,589
Total deposits	22,012	13,434	11,202	1,534	48,182

¹ Included in the reconciling items for total operating expenses is \$294 million (31 March 2013: \$297 million; 30 September 2013: \$582 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 14 Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

\$ millions	NZ Banking Group 31-Mar-14 Unaudited
Total assets	228
As a percentage of total assets of the NZ Banking Group	0.29%

Note 15 Risk management

15.1 Credit risk

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2014 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ Banking Group utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore, is not available for disclosure as required under Clause 1 of Schedule 9 to the Order. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range (\$ millions)	NZ Banking Group 31-Mar-14 (Unaudited)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	30,354	5,512	2,700	38,566
Undrawn commitments and other off-balance sheet exposures	6,748	418	179	7,345
Value of exposures	37,102	5,930	2,879	45,911

NZ Banking Group's 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.

\$ millions	NZ Banking Group 31-Mar-14 Unaudited
Term loans – Housing (as disclosed in Note 5) and Residential mortgages – total gross loans (as disclosed in Note 6)	38,669
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(105)
Fair value hedge adjustments	2
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	7,345
Residential mortgages by LVR	45,911

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)'.

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six-month period ended 31 March 2014 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)'.

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 2014:

\$ millions	NZ Banking Group 31-Mar-14 (Unaudited)	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	2,511	201
Foreign currency risk	141	11
Equity risk	83	7
	2,735	219
Peak end-of-day		
Interest rate risk	3,369	270
Foreign currency risk	191	15
Equity risk	109	9

Notes to the financial statements

Note 15 Risk management (continued)

Interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the NZ Banking Group's net asset position as at 31 March 2014. 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.

\$ millions	NZ Banking Group						Total
	Up to 3 Months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	
Financial assets							
Cash and balances with central banks	1,469	-	-	-	-	197	1,666
Due from other financial institutions	255	-	-	-	-	4	259
Derivative financial instruments	-	-	-	-	-	3,552	3,552
Trading securities	3,399	-	61	496	1,171	-	5,127
Available-for-sale securities	-	38	68	414	2,088	83	2,691
Loans	37,420	4,400	8,055	8,490	5,694	(455)	63,604
Life insurance assets	18	15	-	-	-	233	266
Due from related entities	113	-	-	-	-	951	1,064
Other assets	-	-	-	-	-	234	234
Total financial assets	42,674	4,453	8,184	9,400	8,953	4,799	78,463
Non-financial assets							1,123
Total assets							79,586
Financial liabilities							
Due to other financial institutions	392	-	-	-	-	7	399
Deposits	34,246	5,854	4,403	1,080	625	3,457	49,665
Derivative financial instruments	-	-	-	-	-	3,591	3,591
Trading liabilities	1,202	-	-	-	-	-	1,202
Debt issues	1,732	2,226	1,370	844	6,085	-	12,257
Other liabilities	-	-	-	-	-	608	608
Subordinated debentures	-	-	-	-	652	-	652
Due to related entities	4,558	-	-	-	-	1,186	5,744
Total financial liabilities	42,130	8,080	5,773	1,924	7,362	8,849	74,118
Non-financial liabilities							190
Total liabilities							74,308
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	10,284	(2,019)	(5,223)	(1,798)	(1,244)	-	-

15.3 Liquidity risk

Liquid assets

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

\$ millions	NZ Banking Group 31-Mar-14 Unaudited
Cash and balances with central banks	1,666
Due from other financial institutions	48
Supranational securities	405
NZ Government securities	2,220
NZ public securities	404
NZ corporate securities	2,828
Residential mortgage-backed securities	3,992
Total liquid assets	11,563

Note 15 Risk management (continued)

Liquidity analysis

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

\$ millions	NZ Banking Group						Total
	31-Mar-14 (Unaudited)						
	On Demand	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	
Financial assets							
Cash and balances with central banks	1,666	-	-	-	-	-	1,666
Due from other financial institutions	219	40	-	-	-	-	259
Derivative financial instruments:							
Held for trading	3,416	-	-	-	-	-	3,416
Held for hedging purposes (net settled)	-	16	40	(8)	91	-	139
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(5)	(16)	(406)	-	(427)
Cash inflow	-	-	-	7	398	-	405
Trading securities	104	998	2,342	200	841	993	5,478
Available-for-sale securities	-	67	24	225	2,512	278	3,106
Loans	5,911	6,018	4,976	5,900	22,166	49,221	94,192
Life insurance assets	233	8	10	15	-	-	266
Due from related entities:							
Non-derivative balances	7	109	-	-	-	-	116
Derivative financial instruments:							
Held for trading	948	-	-	-	-	-	948
Other assets	-	74	-	-	-	-	74
Total undiscounted financial assets	12,504	7,330	7,387	6,323	25,602	50,492	109,638
Financial liabilities							
Due to other financial institutions	349	50	-	-	-	-	399
Deposits	23,877	4,976	9,078	10,589	1,846	-	50,366
Derivative financial instruments:							
Held for trading	2,929	-	-	-	-	-	2,929
Held for hedging purposes (net settled)	-	28	30	(10)	61	7	116
Held for hedging purposes (gross settled):							
Cash outflow	-	5	58	261	5,957	-	6,281
Cash inflow	-	(1)	(59)	(109)	(5,554)	-	(5,723)
Trading liabilities	1,052	150	-	-	-	-	1,202
Debt issues	-	758	1,050	3,842	7,193	242	13,085
Other liabilities	-	284	-	-	-	-	284
Subordinated debentures	-	-	-	-	-	652	652
Due to related entities:							
Non-derivative balances	3,622	48	12	943	12	-	4,637
Derivative financial instruments:							
Held for trading	1,132	-	-	-	-	-	1,132
Total undiscounted financial liabilities	32,961	6,298	10,169	15,516	9,515	901	75,360
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	194	-	-	-	-	-	194
Other commitments to provide financial services	20,132	-	-	-	-	-	20,132
Total undiscounted contingent liabilities and commitments	20,326	-	-	-	-	-	20,326

Notes to the financial statements

Note 16 Concentration of funding

\$ millions	NZ Banking Group 31-Mar-14 Unaudited
Funding consists of	
Due to other financial institutions	399
Deposits	49,665
Trading liabilities	1,202
Debt issues ¹	12,257
Subordinated debentures	652
Due to related entities ²	4,590
Total funding	68,765
Analysis of funding by product	
Certificates of deposits	1,307
Savings accounts	13,402
Demand deposits	8,631
Other deposits	1,844
Term deposits	24,481
Securities sold short	657
Securities sold under agreements to repurchase	545
Debt issues	12,257
Subordinated debentures	652
Subtotal	63,776
Due to other financial institutions	399
Due to related entities ²	4,590
Total funding	68,765
Analysis of funding by geographical areas¹	
New Zealand	51,987
Australia	4,294
United Kingdom	6,670
United States of America	3,555
Other	2,259
Total funding	68,765
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	238
Agriculture	1,139
Construction	1,221
Finance and insurance	23,405
Forestry and fishing	140
Government, administration and defence	1,683
Manufacturing	1,512
Mining	77
Property services and business services	4,403
Services	4,668
Trade	1,514
Transport and storage	438
Utilities	469
Households	19,291
Other	3,977
Subtotal	64,175
Due to related entities ²	4,590
Total funding	68,765

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

Note 17 Concentration of credit exposures

\$ millions	NZ Banking Group 31-Mar-14 Unaudited
On-balance sheet credit exposures consists of	
Cash and balances with central banks	1,666
Due from other financial institutions	259
Derivative financial instruments	3,552
Trading securities	5,127
Available-for-sale securities	2,691
Loans	63,604
Life insurance assets	266
Due from related entities	1,064
Other assets	234
Total on-balance sheet credit exposures	78,463
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	472
Agriculture	6,622
Construction	1,318
Finance and insurance	9,428
Forestry and fishing	349
Government, administration and defence	6,282
Manufacturing	2,474
Mining	391
Property	11,451
Property services and business services	1,892
Services	2,451
Trade	3,332
Transport and storage	1,252
Utilities	1,645
Retail lending	28,286
Other	153
Subtotal	77,798
Provisions for impairment charges on loans	(455)
Due from related entities	1,064
Other assets	56
Total on-balance sheet credit exposures	78,463
Off-balance sheet credit exposures	
Contingent liabilities and commitments	21,830
Total off-balance sheet credit exposures	21,830
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	88
Agriculture	740
Construction	439
Finance and insurance	2,012
Forestry and fishing	70
Government, administration and defence	1,025
Manufacturing	1,589
Mining	241
Property	1,639
Property services and business services	790
Services	1,203
Trade	2,115
Transport and storage	525
Utilities	1,705
Retail lending	7,597
Other	52
Total off-balance sheet credit exposures	21,830

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

Notes to the financial statements

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

- as at 31 March 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2014 was nil.

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

- as at 31 March 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2014 was nil.

The 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 exclude exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

Note 18 Overseas Bank and Overseas Banking Group capital adequacy

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

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

¹ The capital ratios represent information mandated by APRA.

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

The Overseas Banking Group is accredited by APRA to apply the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as the Basel III (internal models based) approach. With this accreditation, the Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group's website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny of this process.

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

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 2014.

Profitability		31-Mar-14 Unaudited
Net profit after tax for the six months ended 31 March 2014 (A\$ millions)		3,659
Net profit after tax (for the 12 month period to 31 March 2014) as a percentage of average total assets		1.0%
Total assets and equity		31-Mar-14 Unaudited
Total assets (A\$ millions)		729,375
Percentage change in total assets for the 12 months ended 31 March 2014		7.0%
Total equity (A\$ millions)		48,031
Asset quality		31-Mar-14 Unaudited
Total individually impaired assets ^{1, 2} (A\$ millions)		2,893
As a percentage of total assets		0.4%
Total individual credit impairment allowance ³ (A\$ millions)		1,343
As a percentage of total individually impaired assets		46.4%
Total collective credit impairment allowance ³ (A\$ millions)		2,652

¹ Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A\$457 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

³ Total individual credit impairment allowance and total collective credit impairment allowance include A\$204 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

Note 20 Events after the reporting date

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



Independent Auditors' Review Report

To the Directors of Westpac Banking Corporation

Report on the Financial Statements

We have reviewed pages 5 to 25 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 2014 (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 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the aggregated results of Westpac Banking Corporation – New Zealand Banking Group (the "NZ Banking Group").

Directors' Responsibility for the Financial Statements

The Directors of Westpac Banking Corporation (the "Directors") are responsible for the preparation and presentation of 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 2014, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to 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 (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 2014 in accordance with the Review Engagement Standards issued in New Zealand.

We carry out other assignments on behalf of the NZ Banking Group in the areas of 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 5 to 25 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present fairly the financial position of the NZ Banking Group as at 31 March 2014 and its financial performance and cash flows for the six months ended on that date;
- (b) the supplementary information prescribed by Schedules 5, 7, 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 (Standardised Approach) (BS2A); and
 - (ii) disclosed in accordance with Schedule 9 of the Order.

Restriction on Use of Our Report

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 dark ink, appearing to read 'PricewaterhouseCoopers', is written over a light grey background.

28 May 2014
Chartered Accountants

Auckland

