
Westpac Banking Corporation – New Zealand Banking Group Disclosure Statement

For the six months ended 31 March 2017



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General information and definitions

Certain 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 (otherwise referred to as the 'Overseas Bank') – refers to the worldwide business of Westpac Banking Corporation excluding its controlled 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 New Zealand Branch (otherwise referred to as the 'NZ Branch') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- 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); and
- 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.

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.

Limits on material financial support by the ultimate parent bank

In late 2014, the Australian Prudential Regulation Authority ('APRA') initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed the Overseas Bank that its Extended Licensed Entity ('ELE') non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of five percent of the Overseas Bank's Level 1 Tier 1 capital.

The ELE consists of the Overseas Bank and its subsidiary entities that have been approved by APRA to be included in the ELE for the purposes of measuring capital adequacy.

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. Further, APRA imposed two conditions over the transition period – the percentage excess above the five percent limit as at 30 June 2015, is to reduce by at least one fifth by the end of each calendar year over the transition period, and the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until the Overseas Bank is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 31 March 2017, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were approximately 6.8% of Level 1 Tier 1 capital of the Overseas Bank. Non-equity exposures would need to reduce by approximately \$0.9 billion from the 31 March 2017 position to comply with the 5% limit. The Overseas Bank expects to achieve compliance with the 5% limit within the transition period.

APRA has also confirmed the terms on which the Overseas Bank 'may provide contingent funding support to a New Zealand banking subsidiary during times of financial stress'. APRA has confirmed that, at this time, only covered bonds meet its criteria for contingent funding arrangements.

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
Brian Charles Hartzler, BA, CFA – Managing Director & Chief Executive Officer
Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD
Catriona Alison Deans, BA, MBA, GAICD
Craig William Dunn, BCom, FCA
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

Changes to the Directorate

Elizabeth Blomfield Bryan ceased to be a director on 9 December 2016. There have been no other changes to the composition of the Overseas Bank's Board of Directors (the 'Board') since 30 September 2016.

Chief Executive Officer, NZ Branch

Karen Lee Ann Silk, B.Com

Responsible person

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

Auditor

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	Negative
S&P Global Ratings	AA-	Negative

On 7 July 2016, S&P Global Ratings (**'S&P'**) affirmed the Overseas Bank's credit rating at AA-, however, as a result of S&P revising the outlook for the Australian sovereign rating to 'negative' from 'stable', the Overseas Bank's outlook was also revised to 'negative' from 'stable'. On 18 August 2016, Moody's Investors Service (**'Moody's'**) affirmed the Overseas Bank's credit rating at Aa2, but revised the outlook to 'negative' from 'stable'. The revision in outlook follows Moody's revision of the Australian Macro Profile to "Very Strong -" from "Very Strong". There have been no changes to the Overseas Bank's credit rating in the two years prior to 31 March 2017.

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 2016 and for the six months ended 31 March 2017, respectively, and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

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

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 other 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

Changes to conditions of registration

There have been no changes to the conditions of registration imposed on the Overseas Bank in New Zealand since 31 December 2016.

Westpac New Zealand conditions of registration

Westpac New Zealand has disclosed matters of non-compliance with its conditions of registration in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2017. These matters have no impact on the compliance by the Overseas Bank with its conditions of registration.

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

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

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

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believe, after due enquiry, that, over the six months ended 31 March 2017:

- (a) the Overseas Bank has complied with all 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, as defined in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2017.

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



David Alexander McLean



Karen Lee Ann Silk

Dated this 29th day of May 2017

Income statement for the six months ended 31 March 2017

\$ millions	Note	NZ Banking Group		
		Six Months Ended 31-Mar-17 Unaudited	Six Months Ended 31-Mar-16 Unaudited	Year Ended 30-Sep-16 Audited
Interest income		1,973	2,124	4,172
Interest expense		(1,110)	(1,242)	(2,398)
Net interest income		863	882	1,774
Non-interest income	2	319	277	588
Net operating income		1,182	1,159	2,362
Operating expenses		(490)	(471)	(953)
Impairment recoveries/(charges) on loans	3	36	(9)	(73)
Profit before income tax expense		728	679	1,336
Income tax expense		(206)	(189)	(373)
Profit after income tax expense		522	490	963

The above income statement should be read in conjunction with the accompanying notes.

Statement of comprehensive income for the six months ended 31 March 2017

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-17 Unaudited	Six Months Ended 31-Mar-16 Unaudited	Year Ended 30-Sep-16 Audited
Profit after income tax expense	522	490	963
Other comprehensive income/(expense) which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	9	(15)	(21)
Income tax effect	(3)	4	6
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(5)	(79)	(117)
Transferred to the income statement	57	70	133
Income tax effect	(15)	2	(4)
Total other comprehensive income/(expense) which may be reclassified subsequently to the income statement	43	(18)	(3)
Other comprehensive income/(expense) which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	13	(2)	(7)
Income tax effect	(3)	1	2
Total other comprehensive income/(expense) which will not be reclassified subsequently to the income statement	10	(1)	(5)
Total other comprehensive income/(expense), net of tax	53	(19)	(8)
Total comprehensive income	575	471	955

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet as at 31 March 2017

\$ millions	Note	NZ Banking Group		
		31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Assets				
Cash and balances with central banks		1,534	1,576	1,472
Due from other financial institutions		800	560	844
Trading securities and other financial assets designated at fair value	4	3,691	3,412	4,035
Derivative financial instruments		3,518	5,250	4,838
Available-for-sale securities		3,818	3,713	3,790
Loans	5, 6	76,948	72,128	75,582
Life insurance assets		275	261	269
Due from related entities		595	2,784	1,218
Investment in associate		11	8	9
Property and equipment		145	149	161
Current tax assets		-	25	-
Deferred tax assets		142	166	166
Intangible assets		650	647	650
Other assets		406	277	324
Total assets		92,533	90,956	93,358
Liabilities				
Due to other financial institutions		841	678	616
Deposits and other borrowings	8	58,429	55,972	58,791
Other financial liabilities at fair value through income statement	9	290	406	576
Derivative financial instruments		4,195	7,410	6,236
Debt issues	10	15,803	14,748	14,727
Current tax liabilities		19	-	70
Provisions		81	73	99
Other liabilities		692	579	590
Total liabilities excluding related entities liabilities		80,350	79,866	81,705
Due to related entities		3,469	3,385	3,525
Subordinated debentures		1,138	1,152	1,091
Total related entities liabilities		4,607	4,537	4,616
Total liabilities		84,957	84,403	86,321
Net assets		7,576	6,553	7,037
Equity				
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		699	564	613
Total head office account		1,999	1,864	1,913
NZ Banking Group equity				
Ordinary share capital		143	143	143
Retained profits		5,496	4,666	5,086
Available-for-sale securities reserve		7	5	1
Cash flow hedge reserve		(69)	(125)	(106)
Total equity attributable to owners of the NZ Banking Group		5,577	4,689	5,124
Total equity		7,576	6,553	7,037
Interest earning and discount bearing assets		87,027	83,450	86,427
Interest and discount bearing liabilities		74,089	71,028	73,743

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity for the six months ended 31 March 2017

\$ millions	NZ Banking Group						Total Equity
	NZ Branch		Other members of the NZ Banking Group				
	Head Office Account		Total Equity attributable to owners of the NZ Banking Group				
	Branch Capital	Retained Profits	Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	
As at 1 October 2015 (Audited)	1,300	524	143	4,328	16	(118)	6,193
Six months ended 31 March 2016 (Unaudited)							
Profit after income tax expense	-	40	-	450	-	-	490
Net losses from changes in fair value	-	-	-	-	(15)	(79)	(94)
Income tax effect	-	-	-	-	4	22	26
Transferred to the income statement	-	-	-	-	-	70	70
Income tax effect	-	-	-	-	-	(20)	(20)
Remeasurement of employee defined benefit obligations	-	-	-	(2)	-	-	(2)
Income tax effect	-	-	-	1	-	-	1
Total comprehensive income for the six months ended 31 March 2016	-	40	-	449	(11)	(7)	471
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	(111)	-	-	(111)
As at 31 March 2016 (Unaudited)	1,300	564	143	4,666	5	(125)	6,553
Year ended 30 September 2016 (Audited)							
Profit after income tax expense	-	89	-	874	-	-	963
Net losses from changes in fair value	-	-	-	-	(21)	(117)	(138)
Income tax effect	-	-	-	-	6	33	39
Transferred to the income statement	-	-	-	-	-	133	133
Income tax effect	-	-	-	-	-	(37)	(37)
Remeasurement of employee defined benefit obligations	-	-	-	(7)	-	-	(7)
Income tax effect	-	-	-	2	-	-	2
Total comprehensive income for the year ended 30 September 2016	-	89	-	869	(15)	12	955
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	(111)	-	-	(111)
As at 30 September 2016 (Audited)	1,300	613	143	5,086	1	(106)	7,037
Six months ended 31 March 2017 (Unaudited)							
Profit after income tax expense	-	86	-	436	-	-	522
Net gains/(losses) from changes in fair value	-	-	-	-	9	(5)	4
Income tax effect	-	-	-	-	(3)	1	(2)
Transferred to the income statement	-	-	-	-	-	57	57
Income tax effect	-	-	-	-	-	(16)	(16)
Remeasurement of employee defined benefit obligations	-	-	-	13	-	-	13
Income tax effect	-	-	-	(3)	-	-	(3)
Total comprehensive income for the six months ended 31 March 2017	-	86	-	446	6	37	575
Transaction with owners:							
Dividends paid on ordinary shares (refer to Note 11)	-	-	-	(36)	-	-	(36)
As at 31 March 2017 (Unaudited)	1,300	699	143	5,496	7	(69)	7,576

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows for the six months ended 31 March 2017

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-17 Unaudited	Six Months Ended 31-Mar-16 Unaudited	Year Ended 30-Sep-16 Audited
Cash flows from operating activities			
Interest income received	1,982	2,149	4,198
Interest expense paid	(1,152)	(1,272)	(2,403)
Non-interest income received	285	232	521
Operating expenses paid	(439)	(448)	(838)
Income tax paid	(253)	(230)	(328)
Cash flows from operating activities before changes in operating assets and liabilities	423	431	1,150
Net (increase)/decrease in:			
Due from other financial institutions	19	(159)	(716)
Trading securities and other financial assets designated at fair value	279	709	53
Loans	(1,383)	(2,531)	(6,107)
Due from related entities	465	547	1,897
Other assets	(2)	4	3
Net (decrease)/increase in:			
Due to other financial institutions	225	(159)	(221)
Deposits and other borrowings	(362)	2,986	5,805
Other financial liabilities at fair value through income statement	(286)	127	297
Other liabilities	86	17	(4)
Net movement in external and related entity derivative financial instruments	(361)	(511)	(1,915)
Net cash (used in)/provided by operating activities	(897)	1,461	242
Cash flows from investing activities			
Purchase of available-for-sale securities	(128)	(275)	(652)
Proceeds from maturities/sale of available-for-sale securities	30	-	300
Net movement in life insurance assets	(6)	4	(4)
Purchase of capitalised computer software	(26)	(19)	(56)
Purchase of property and equipment	(7)	(4)	(25)
Net cash used in investing activities	(137)	(294)	(437)
Cash flows from financing activities			
Proceeds from debt issues	5,644	3,181	7,840
Repayments of debt issues	(4,650)	(2,233)	(6,018)
Net movement in due to related entities	113	(372)	(261)
Redemption of subordinated debentures	-	(762)	(762)
Dividends paid to ordinary shareholders	(36)	(111)	(111)
Net cash provided by/(used in) financing activities	1,071	(297)	688
Net increase in cash and cash equivalents	37	870	493
Cash and cash equivalents at beginning of the period/year	1,530	1,037	1,037
Cash and cash equivalents at end of the period/year	1,567	1,907	1,530
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	215	189	253
Cash and balances with central banks	1,319	1,387	1,219
Due from other financial institutions	33	331	58
Cash and cash equivalents at end of the period/year	1,567	1,907	1,530

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

In these condensed consolidated interim financial statements ('financial statements') reference is made to the following reporting groups:

- Westpac Banking Corporation (otherwise referred to as the 'Overseas Bank') – refers to the worldwide business of Westpac Banking Corporation excluding its controlled 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 New Zealand Branch (otherwise referred to as the 'NZ Branch') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- 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); and
- 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.

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

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 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2016. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the 'Board') on 29 May 2017. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to available-for-sale securities and financial assets and financial liabilities (including derivative instruments) measured at fair value through income statement or in other comprehensive income. The going concern concept and the accrual basis of accounting have been applied.

All amounts in these financial statements have been rounded in millions of New Zealand dollars unless otherwise stated.

There were no amendments to the New Zealand Accounting Standards adopted during the reporting period that had a material impact on the NZ Banking Group.

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 2016.

The areas of judgment, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the financial statements for the year ended 30 September 2016.

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-17 Unaudited	Six Months Ended 31-Mar-16 Unaudited	Year Ended 30-Sep-16 Audited
Fees and commissions			
Transaction fees and commissions	95	91	189
Lending fees	32	32	64
Other non-risk fee income	27	25	49
Total fees and commissions	154	148	302
Wealth management revenue			
Fees from trust and other fiduciary activities	23	21	42
Net life insurance income and change in policy liabilities	31	55	108
Total wealth management revenue	54	76	150
Trading income			
Foreign exchange trading	62	45	106
Other trading products	48	(3)	(2)
Total trading income	110	42	104
Net ineffectiveness on qualifying hedges	(7)	(2)	4
Other non-interest income			
Share of profit of associate accounted for using the equity method	3	8	11
Other	5	5	17
Total other non-interest income	8	13	28
Total non-interest income	319	277	588

Notes to the financial statements

Note 3 Impairment charges on loans

\$ millions	NZ Banking Group		
	Six Months Ended 31-Mar-17 Unaudited	Six Months Ended 31-Mar-16 Unaudited	Year Ended 30-Sep-16 Audited
Collectively assessed provisions	(8)	(16)	8
Individually assessed provisions	(39)	2	6
Bad debts written-off directly to the income statement	11	23	59
Total impairment (recoveries)/charges on loans	(36)	9	73

Note 4 Trading securities and other financial assets designated at fair value

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Government and semi-government securities	1,644	708	1,350
Other debt securities	1,522	1,765	2,374
Securities purchased under agreement to resell	525	939	311
Total trading securities and other financial assets designated at fair value	3,691	3,412	4,035

Note 5 Loans

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Overdrafts	1,184	1,292	1,313
Credit card outstandings	1,492	1,547	1,503
Money market loans	1,362	1,375	1,362
Term loans:			
Housing	46,245	43,428	45,126
Non-housing	25,718	23,579	25,425
Other	1,345	1,316	1,288
Total gross loans	77,346	72,537	76,017
Provisions for impairment charges on loans	(398)	(409)	(435)
Total net loans	76,948	72,128	75,582

As at 31 March 2017, \$6,812 million of housing loans were 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 2016: \$4,303 million, 30 September 2016: \$6,591 million). These housing loans were not derecognised from the NZ Banking Group's balance sheet 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 2016. As at 31 March 2017, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$3,386 million (31 March 2016: \$4,090 million, 30 September 2016: \$3,480 million).

Notes to the financial statements

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

\$ millions	NZ Banking Group 31-Mar-17 Unaudited
Neither past due nor impaired	75,751
Past due but not impaired assets:	
Less than 30 days past due	1,122
At least 30 days but less than 60 days past due	145
At least 60 days but less than 90 days past due	55
At least 90 days past due	98
Total past due assets not impaired	1,420
Individually impaired assets¹	
Balance at beginning of the period	222
Additions	55
Amounts written off	(2)
Returned to performing or repaid	(100)
Balance at end of the period	175
Total gross loans²	77,346
Individually assessed provisions	
Balance at beginning of the period	105
Impairment charges on loans:	
New provisions	9
Reversal of previously recognised impairment charges on loans	(48)
Amounts written off	(4)
Balance at end of the period	62
Collectively assessed provisions	
Balance at beginning of the period	361
Impairment reversals on loans	(8)
Interest adjustments	14
Balance at end of the period	367
Total provisions for impairment charges on loans and credit commitments	429
Provision for credit commitments	(31)
Total provisions for impairment charges on loans	398
Total net loans	76,948

¹ The NZ Banking Group had undrawn commitments of \$8 million (31 March 2016: \$34 million, 30 September 2016: \$14 million) to counterparties for whom drawn balances are classified as individually impaired assets as at 31 March 2017.

² The NZ Banking Group did not have other assets under administration as at 31 March 2017.

Note 7 Financial assets pledged as collateral

The NZ Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the CB Programme (refer to Note 5), the carrying value of these financial assets pledged as collateral is:

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Cash	767	229	786
Securities pledged under repurchase agreements:			
Available-for-sale securities	-	-	400
Trading securities and other financial assets designated at fair value	124	331	44
Total amount pledged to secure liabilities (excluding CB Programme)	891	560	1,230

Notes to the financial statements

Note 8 Deposits and other borrowings

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	1,617	1,045	1,250
Total deposits and other borrowings at fair value	1,617	1,045	1,250
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	5,081	4,467	4,621
Other interest bearing:			
At call	23,894	25,318	23,741
Term	27,837	25,142	29,179
Total deposits and other borrowings at amortised cost	56,812	54,927	57,541
Total deposits and other borrowings	58,429	55,972	58,791

The NZ Branch held no retail deposits from individuals as at 31 March 2017 (31 March 2016: nil, 30 September 2016: nil).

Note 9 Other financial liabilities at fair value through income statement

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Securities sold short	166	76	132
Security repurchase agreements	124	330	444
Total other financial liabilities at fair value through income statement	290	406	576

Note 10 Debt issues

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Short-term debt			
Commercial paper	2,398	1,630	2,410
Total short-term debt	2,398	1,630	2,410
Long-term debt			
Non-domestic medium-term notes	6,908	6,115	5,616
Covered bonds	3,386	4,090	3,480
Domestic medium-term notes	3,111	2,913	3,221
Total long-term debt	13,405	13,118	12,317
Total debt issues	15,803	14,748	14,727
Debt issues at amortised cost	13,405	13,118	12,317
Debt issues at fair value	2,398	1,630	2,410
Total debt issues	15,803	14,748	14,727
Movement in debt issues			
Balance at beginning of the period/year	14,727	14,685	14,685
Issuance during the period/year	5,644	3,181	7,840
Repayments during the period/year	(4,650)	(2,233)	(6,018)
Effect of foreign exchange movements during the period/year	189	(923)	(1,824)
Effect of fair value movements and amortisation adjustments during the period/year	(107)	38	44
Balance at end of the period/year	15,803	14,748	14,727

Note 11 Related entities

Controlled entities of the NZ Banking Group as at 30 September 2016 are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2016. The trustee of the HLT Custodian Trust and the MIF Custodian Trust respectively (**Trusts**), Westpac Nominees-NZ-Limited (**Trustee**), resolved on 18 November 2016 to wind-up the Trusts. As at 30 November 2016 all final disbursements had been made from the Trusts and the Trustee had formally wound-up the Trusts.

On 27 March 2017, \$36 million of dividends were declared and paid by the following entities:

- Westpac Group Investment-NZ-Limited declared and paid a dividend of \$4 million to Westpac Overseas Holdings Pty Limited.
- BT Financial Group (NZ) Limited declared and paid a dividend of \$16 million to Westpac Equity Holdings Pty Limited; and
- Westpac Financial Services Group-NZ- Limited declared and paid a dividend of \$16 million to Westpac Equity Holdings Pty Limited.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 March 2017, amounted to \$4,337 million (31 March 2016: \$7,847 million, 30 September 2016: \$6,189 million).

Note 12 Fair value of financial instruments

Fair valuation control framework

The NZ Banking Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the originator of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

A key element of the Framework is the Revaluation Committee, comprising senior valuation specialists from within the Overseas Banking Group. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

The method of determining fair value differs depending on the information available.

Fair value hierarchy

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

The NZ Banking Group categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The NZ Banking Group applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives. This includes credit valuation adjustments and funding valuation adjustments, which incorporate credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

Financial instruments measured at fair value

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgment.

Instrument	Balance sheet category	Includes:	Valuation
Exchange traded products	Derivative financial instruments Due from related entities Due to related entities	Exchange traded interest rate futures - derivative financial instruments	All these instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
Foreign exchange products	Derivative financial instruments	FX spot	
	Trading securities and other financial assets designated at fair value		
Non-asset backed debt instruments	Available-for-sale securities Life insurance assets Other financial liabilities at fair value through income statement	New Zealand Government bonds	

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps - derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers.

Notes to the financial statements

Note 12 Fair value of financial instruments (continued)

Instrument	Balance sheet category	Includes:	Valuation
Foreign exchange products	Derivative financial instruments Due from related entities Due to related entities	FX swaps, FX forward contracts and FX options-derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Asset backed debt instruments	Trading securities and other financial assets designated at fair value Available-for-sale securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available these are classified as Level 3 instruments.
Non-asset backed debt instruments	Trading securities and other financial assets designated at fair value Available-for-sale securities Other financial liabilities at fair value through income statement	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities with third parties	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices.
Certificates of deposit	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Debt issues	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in Westpac New Zealand's implied credit worthiness.
Life insurance assets	Life insurance assets	Local authority securities, investment grade corporate bonds and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data 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 historical transactions.

These valuations are calculated using a high degree of management judgment.

Instrument	Balance sheet category	Includes:	Valuation
Asset backed debt instruments	Trading securities and other financial assets designated at fair value	Residential mortgage-backed securities ('RMBS') and other asset backed securities	RMBS are classified as Level 3 as consensus prices are not available as valuation inputs. Quotes by a third party broker or lead manager are used to derive the fair value for these instruments.
Interest rate products	Derivative financial instruments	Non-vanilla interest rate (inflation indexed) derivatives and long-dated NZD caps	Valued using industry standard valuation models utilising observable market inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

Notes to the financial statements

Note 12 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-17 (Unaudited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	747	2,863	81	3,691
Derivative financial instruments	-	3,515	3	3,518
Available-for-sale securities	1,573	2,245	-	3,818
Life insurance assets	-	275	-	275
Due from related entities	4	532	-	536
Total financial assets carried at fair value	2,324	9,430	84	11,838
Financial liabilities				
Deposits at fair value	-	1,617	-	1,617
Other financial liabilities at fair value through income statement	91	199	-	290
Derivative financial instruments	-	4,195	-	4,195
Debt issues at fair value	-	2,398	-	2,398
Due to related entities	4	693	-	697
Total financial liabilities carried at fair value	95	9,102	-	9,197

\$ millions	NZ Banking Group 31-Mar-16 (Unaudited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	106	3,249	57	3,412
Derivative financial instruments	5	5,240	5	5,250
Available-for-sale securities	1,623	2,090	-	3,713
Life insurance assets	3	258	-	261
Due from related entities	-	915	-	915
Total financial assets carried at fair value	1,737	11,752	62	13,551
Financial liabilities				
Deposits at fair value	-	1,045	-	1,045
Other financial liabilities at fair value through income statement	76	330	-	406
Derivative financial instruments	6	7,404	-	7,410
Debt issues at fair value	-	1,630	-	1,630
Due to related entities	-	813	-	813
Total financial liabilities carried at fair value	82	11,222	-	11,304

\$ millions	NZ Banking Group 30-Sep-16 (Audited)			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets				
Trading securities and other financial assets designated at fair value	668	3,268	99	4,035
Derivative financial instruments	-	4,833	5	4,838
Available-for-sale securities	1,608	2,182	-	3,790
Life insurance assets	-	269	-	269
Due from related entities	-	694	-	694
Total financial assets carried at fair value	2,276	11,246	104	13,626
Financial liabilities				
Deposits at fair value	-	1,250	-	1,250
Other financial liabilities at fair value through income statement	132	444	-	576
Derivative financial instruments	-	6,236	-	6,236
Debt issues at fair value	-	2,410	-	2,410
Due to related entities	-	881	-	881
Total financial liabilities carried at fair value	132	11,221	-	11,353

¹ Balances within this category of the fair value hierarchy are not considered material to the total trading securities and other financial assets designated at fair value and derivative financial instruments balances.

Notes to the financial statements

Note 12 Fair value of financial instruments (continued)

Analysis of movements between fair value hierarchy levels

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the six months ended 31 March 2017 (31 March 2016: no material changes in fair value, 30 September 2016: no material changes in fair value).

During the period there were no material transfers between levels of the fair value hierarchy (31 March 2016: no material transfers between levels, 30 September 2016: no material transfers between levels).

Financial instruments not measured at fair value

The following table summarises the estimated fair value and fair value hierarchy of the NZ Banking Group's financial instruments not measured at fair value:

\$ millions	NZ Banking Group					
	31-Mar-17 (Unaudited)		31-Mar-16 (Unaudited)		30-Sep-16 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	76,948	76,968	72,128	72,320	75,582	75,831
Total financial assets	76,948	76,968	72,128	72,320	75,582	75,831
Financial liabilities						
Deposits and other borrowings	56,812	56,850	54,927	55,004	57,541	57,597
Debt issues	13,405	13,554	13,118	13,203	12,317	12,473
Due to related entities	2,772	2,786	2,572	2,583	2,644	2,658
Subordinated debentures	1,138	1,187	1,152	1,141	1,091	1,111
Total financial liabilities	74,127	74,377	71,769	71,931	73,593	73,839

For cash and balances with central banks, due from and due to other financial institutions and non-derivative balances due from 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.

A description of how fair value is derived for financial instruments not measured at fair value is set out in Note 27 to the financial statements included in the Disclosure Statement for the year ended 30 September 2016.

Note 13 Contingent liabilities, contingent assets and credit commitments

\$ millions	NZ Banking Group		
	31-Mar-17 Unaudited	31-Mar-16 Unaudited	30-Sep-16 Audited
Commitments for capital expenditure	12	3	3
Lease commitments¹			
One year or less	59	53	57
Between one and five years	138	136	141
Over five years	21	21	16
Total lease commitments	218	210	214
Undrawn credit commitments			
Letters of credit and guarantees	1,181	1,266	1,347
Commitments to extend credit	24,254	25,066	23,988
Other commitments	25	-	-
Total undrawn credit commitments	25,460	26,332	25,335

¹ The NZ Banking Group mainly leases commercial and retail premises and related property and equipment.

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. Westpac New Zealand is the defendant in proceedings filed on 20 August 2014 by the plaintiff group. At this stage the impact of the proceedings against Westpac New Zealand cannot be determined with any certainty.

As disclosed on page 2, Westpac New Zealand has disclosed matters of non-compliance with its conditions of registration in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2017. That disclosure advised that, on 10 February 2017, the Reserve Bank of New Zealand ('Reserve Bank') issued Westpac New Zealand with a notice under section 95 of the Reserve Bank Act, requiring Westpac New Zealand to obtain an independent review of its compliance with advanced internal rating-based aspects of the Reserve Bank's 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)'. Whilst Westpac New Zealand's matters of non-compliance have no impact on the compliance by the Overseas Bank with its conditions of registration, any further consequences arising from Westpac New Zealand's section 95 review that require disclosure by the Overseas Bank will be appropriately included in subsequent Disclosure Statements.

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 matters has been made on a case-by-case basis and provision has been made in these financial statements, where appropriate.

Additional information relating to any provision or contingent liability has not been provided where disclosure of such information might be expected to seriously prejudice the position of the NZ Banking Group.

Note 14 Segment information

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

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.

Comparative information for the six months ended 31 March 2016 and the year ended 30 September 2016 has been restated following customer segmentation changes, as well as changes to the net interest income in the operating segments, as a result of the Overseas Bank updating its capital allocation framework. Comparative information has been restated to ensure consistent presentation with the current reporting period. The revised presentation has no impact on total profit before income tax expense for the six months ended 31 March 2016 and the year ended 30 September 2016.

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:

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Commercial, Corporate and Institutional Banking provides a broad range of financial services for commercial, corporate, property finance, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand; and
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

- business units that do not meet the definition of operating segments under New Zealand equivalents to International Financial Reporting Standards 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 14 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	
Six months ended 31 March 2017 (Unaudited)					
Net interest income	519	352	1	(9)	863
Non-interest income	97	161	61	-	319
Net operating income	616	513	62	(9)	1,182
Net operating income from external customers	852	669	64	(403)	1,182
Net internal interest expense	(236)	(156)	(2)	394	-
Net operating income	616	513	62	(9)	1,182
Operating expenses	(343)	(124)	(14)	(9)	(490)
Impairment (charges)/recoveries on loans	(20)	56	-	-	36
Profit before income tax expense	253	445	48	(18)	728
Total gross loans	43,824	33,480	-	42	77,346
Total deposits and other borrowings	33,670	23,142	-	1,617	58,429
Six months ended 31 March 2016 (Unaudited)					
Net interest income/(expense)	507	364	(2)	13	882
Non-interest income	95	112	66	4	277
Net operating income	602	476	64	17	1,159
Net operating income from external customers	840	671	67	(419)	1,159
Net internal interest expense	(238)	(195)	(3)	436	-
Net operating income	602	476	64	17	1,159
Operating expenses	(337)	(121)	(12)	(1)	(471)
Impairment (charges)/recoveries on loans	(22)	14	-	(1)	(9)
Profit before income tax expense	243	369	52	15	679
Total gross loans	41,043	31,431	-	63	72,537
Total deposits and other borrowings	32,242	22,685	-	1,045	55,972
Year ended 30 September 2016 (Unaudited)					
Net interest income/(expense)	1,032	736	(4)	10	1,774
Non-interest income	195	246	128	19	588
Net operating income	1,227	982	124	29	2,362
Net operating income from external customers	1,718	1,345	129	(830)	2,362
Net internal interest expense	(491)	(363)	(5)	859	-
Net operating income	1,227	982	124	29	2,362
Operating expenses	(672)	(247)	(26)	(8)	(953)
Impairment charges on loans	(32)	(29)	-	(12)	(73)
Profit before income tax expense	523	706	98	9	1,336
Total gross loans	42,695	33,288	-	34	76,017
Total deposits and other borrowings	32,830	24,711	-	1,250	58,791

Note 15 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 (the registered bank) conditions of registration as at the reporting date:

\$ millions	NZ Banking Group 31-Mar-17 Unaudited
Total assets of insurance business	203
As a percentage of total consolidated assets of the NZ Banking Group	0.22%

Note 16 Risk management

16.1 Credit risk

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2017 (Unaudited)

The NZ Banking Group identified during the preparation of the Disclosure Statement for the three months ended 31 December 2016 that the LVRs had not been calculated in compliance with the Order. The NZ Banking Group had been calculating the ratios by reference to the value of loans at origination rather than the current values as required by the Order. The information below as at 31 March 2017 has been calculated in compliance with the Order and the NZ Banking Group has re-stated the ratios as at 30 September 2016 and 31 December 2016.

For loans originated from 1 January 2008, the NZ Banking Group utilises data from its loan origination system. For loans originated prior to 1 January 2008, the origination valuation is not separately recorded and is therefore not available for disclosure. For these loans, the NZ Banking Group utilises its dynamic LVR process to estimate an origination valuation.

For loans approved but not yet drawn on and before 31 December 2016, exposures were not separately recorded and are therefore not available for disclosure. As at 31 March 2017, loans approved but not yet drawn utilise the proposed loan limit to calculate LVR and are included in the relevant LVR range.

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-17			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	41,866	2,433	1,722	46,021
Undrawn commitments and other off-balance sheet exposures	9,045	226	294	9,565
Value of exposures	50,911	2,659	2,016	55,586

LVR range (\$ millions)	NZ Banking Group 30-Sep-16 (Restated)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	40,260	2,712	1,864	44,836
Undrawn commitments and other off-balance sheet exposures	8,336	226	302	8,864
Value of exposures	48,596	2,938	2,166	53,700

LVR range (\$ millions)	NZ Banking Group 31-Dec-16 (Restated)			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	40,992	2,583	1,767	45,342
Undrawn commitments and other off-balance sheet exposures	8,516	215	290	9,021
Value of exposures	49,508	2,798	2,057	54,363

NZ Banking Group's reconciliation of residential mortgage-related amounts (Unaudited)

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-17
Term loans - Housing (as disclosed in Note 5)	46,245
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(183)
Fair value hedge adjustments	(41)
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	9,565
Residential mortgages by LVR	55,586

16.2 Market risk

Market risk notional capital charges (Unaudited)

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank of New Zealand document 'Capital Adequacy Framework (Standardised Approach) (BS2A)' ('BS2A') and is calculated on a six monthly basis.

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 2017 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2A.

Notes to the financial statements

Note 16 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 months ended 31 March 2017:

\$ millions	NZ Banking Group 31-Mar-17	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	3,023	242
Foreign currency risk	24	2
Equity risk	-	-
	3,047	244
Peak end-of-day		
Interest rate risk	5,498	440
Foreign currency risk	45	4
Equity risk	-	-

Interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing date or maturity date of the NZ Banking Group's net asset position as at 31 March 2017. 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 31-Mar-17						Non- interest Bearing	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			
Financial assets								
Cash and balances with central banks	1,319	-	-	-	-	215	1,534	
Due from other financial institutions	791	-	-	-	-	9	800	
Trading securities and other financial assets designated at fair value	2,825	460	58	120	228	-	3,691	
Derivative financial instruments	-	-	-	-	-	3,518	3,518	
Available-for-sale securities	23	86	523	1,340	1,846	-	3,818	
Loans	41,554	5,469	9,905	13,641	6,777	(398)	76,948	
Life insurance assets	5	-	3	-	-	267	275	
Due from related entities	54	-	-	-	-	541	595	
Other assets	-	-	-	-	-	359	359	
Total financial assets	46,571	6,015	10,489	15,101	8,851	4,511	91,538	
Non-financial assets							995	
Total assets							92,533	
Financial liabilities								
Due to other financial institutions	834	-	-	-	-	7	841	
Deposits and other borrowings	39,504	7,185	4,821	1,307	531	5,081	58,429	
Other financial liabilities at fair value through income statement	290	-	-	-	-	-	290	
Derivative financial instruments	-	-	-	-	-	4,195	4,195	
Debt issues	8,217	320	-	1,367	5,899	-	15,803	
Other liabilities	-	-	-	-	-	583	583	
Due to related entities	2,676	-	-	-	-	793	3,469	
Subordinated debentures	1,138	-	-	-	-	-	1,138	
Total financial liabilities	52,659	7,505	4,821	2,674	6,430	10,659	84,748	
Non-financial liabilities							209	
Total liabilities							84,957	
On balance-sheet interest rate repricing gap	(6,088)	(1,490)	5,668	12,427	2,421			
Net derivative notional principals								
Net interest rate contracts (notional):								
Receivable/(payable)	19,936	(3,140)	(6,172)	(10,381)	(243)			
Net interest rate repricing gap	13,848	(4,630)	(504)	2,046	2,178			

Note 16 Risk management (continued)

16.3 Liquidity risk

Liquid assets (Unaudited)

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-17
Cash and balances with central banks	1,534
Due from other financial institutions	24
Supranational securities	1,382
NZ Government securities	2,827
NZ public securities	1,469
NZ corporate securities	1,346
Residential mortgage-backed securities	3,950
Total liquid assets	12,532

Contractual maturity of financial instruments (Unaudited)

The following table presents cash flows associated with financial instruments receivable or payable at the balance sheet date, by remaining contractual maturity. The amounts disclosed in the table are the future contractual undiscounted cash flows, whereas the NZ Banking Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with these financial instruments include both principal payments as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivatives designed for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows derived as the fixed rate and/or the expected variable rate applied to the notional amount over the remaining contractual term and where relevant includes the receipt and payment of the notional amount under the contract. Foreign exchange obligations have been translated to New Zealand dollars using the closing spot rates at the end of the period.

Notes to the financial statements

Note 16 Risk management (continued)

The balances in the table below will not necessarily agree to amounts presented on the face of the balance sheet as amounts in the table incorporate cash flows on an undiscounted basis and include both principal and associated future interest payments.

Derivatives held for trading and other financial instruments at fair value through income statement are not managed for liquidity purposes on the basis of their contractual maturity and accordingly these instruments are presented in both the on demand and up to 1 month columns.

The financial instruments that are managed based on their contractual maturity are presented on a contractual undiscounted basis in the table below:

\$ millions	NZ Banking Group 31-Mar-17						Total
	On Demand	Up to 1 Month	Over 1 Month and Up to 3 Months	Over 3 Months and Up to 1 Year	Over 1 Year and Up to 5 Years	Over 5 Years	
Financial assets							
Cash and balances with central banks	1,534	-	-	-	-	-	1,534
Due from other financial institutions	33	767	-	-	-	-	800
Trading securities and other financial assets designated at fair value	-	1,037	1,227	602	705	251	3,822
Derivative financial instruments:							
Held for trading	3,404	-	-	-	-	-	3,404
Held for hedging purposes (net settled)	-	1	4	24	46	-	75
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(2)	(7)	(335)	-	(344)
Cash inflow	-	-	-	2	342	-	344
Available-for-sale securities	-	29	28	714	3,235	63	4,069
Loans	5,191	8,551	5,130	7,459	25,806	59,009	111,146
Life insurance assets	268	1	3	3	-	-	275
Due from related entities:							
Non-derivative balances	16	43	-	-	-	-	59
Derivative financial instruments:							
Held for trading	536	-	-	-	-	-	536
Other assets	-	226	-	-	1	1	228
Total undiscounted financial assets	10,982	10,655	6,390	8,797	29,800	59,324	125,948
Financial liabilities							
Due to other financial institutions	287	554	-	-	-	-	841
Deposits and other borrowings	28,990	5,169	10,656	12,325	1,951	-	59,091
Other financial liabilities at fair value through income statement	166	124	-	-	-	-	290
Derivative financial instruments:							
Held for trading	3,140	-	-	-	-	-	3,140
Held for hedging purposes (net settled)	-	9	65	204	139	2	419
Held for hedging purposes (gross settled):							
Cash outflow	-	12	710	1,050	4,543	1,133	7,448
Cash inflow	-	(2)	(549)	(832)	(3,746)	(894)	(6,023)
Debt issues	-	27	1,360	3,577	10,589	924	16,477
Other liabilities	-	305	-	-	-	-	305
Due to related entities:							
Non-derivative balances	2,459	-	3	8	351	-	2,821
Derivative financial instruments:							
Held for trading	646	-	-	-	-	-	646
Held for hedging purposes (gross settled):							
Cash outflow	-	-	18	55	1,753	-	1,826
Cash inflow	-	-	(16)	(48)	(1,667)	-	(1,731)
Subordinated debentures	-	-	13	40	1,317	-	1,370
Total undiscounted financial liabilities	35,688	6,198	12,260	16,379	15,230	1,165	86,920
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,181	-	-	-	-	-	1,181
Commitments to extend credit	24,254	-	-	-	-	-	24,254
Other commitments	25	-	-	-	-	-	25
Total undiscounted contingent liabilities and commitments	25,460	-	-	-	-	-	25,460

Notes to the financial statements

Note 17 Concentration of funding

\$ millions	NZ Banking Group 31-Mar-17 Unaudited
Funding consists of	
Due to other financial institutions	841
Deposits and other borrowings	58,429
Other financial liabilities at fair value through income statement	290
Debt issues ¹	15,803
Due to related entities ²	2,755
Subordinated debentures	1,138
Total funding	79,256
Analysis of funding by geographical areas¹	
New Zealand	58,702
Australia	3,590
United Kingdom	7,447
United States of America	2,732
Other	6,785
Total funding	79,256
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	323
Agriculture	1,296
Construction	1,737
Finance and insurance	28,236
Forestry and fishing	434
Government, administration and defence	3,531
Manufacturing	1,439
Mining	69
Property services and business services	5,400
Services	3,468
Trade	1,458
Transport and storage	734
Utilities	637
Households	23,818
Other	3,921
Subtotal	76,501
Due to related entities ²	2,755
Total funding	79,256

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 deposits and borrowings and exclude amounts which relate to intra-group derivatives and other liabilities.

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

Notes to the financial statements

Note 18 Concentration of credit exposures

\$ millions	NZ Banking Group 31-Mar-17 Unaudited
On-balance sheet credit exposures consist of	
Cash and balances with central banks	1,534
Due from other financial institutions	800
Trading securities and other financial assets designated at fair value	3,691
Derivative financial instruments	3,518
Available-for-sale securities	3,818
Loans	76,948
Life insurance assets	8
Due from related entities	595
Other assets	359
Total on-balance sheet credit exposures	91,271
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	395
Agriculture	7,835
Construction	630
Finance and insurance	10,558
Forestry and fishing	362
Government, administration and defence	5,114
Manufacturing	2,381
Mining	221
Property	6,328
Property services and business services	1,212
Services	1,580
Trade	2,339
Transport and storage	1,380
Utilities	2,493
Retail lending	48,161
Other	9
Subtotal	90,998
Provisions for impairment charges on loans	(398)
Due from related entities	595
Other assets	76
Total on-balance sheet credit exposures	91,271
Off-balance sheet credit exposures consist of	
Credit risk-related instruments	25,460
Total off-balance sheet credit exposures	25,460
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	89
Agriculture	551
Construction	394
Finance and insurance	1,903
Forestry and fishing	154
Government, administration and defence	597
Manufacturing	1,521
Mining	162
Property	1,526
Property services and business services	495
Services	662
Trade	1,875
Transport and storage	1,022
Utilities	1,668
Retail lending	12,841
Total off-balance sheet credit exposures	25,460

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

The categorisation between industry sectors has changed from those previously reported to align disclosure with the classifications in the new Reserve Bank requirements.

Note 18 Concentration of credit exposures (continued)**Concentration of credit exposures to individual counterparties**

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the 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 2017 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2017 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 2017 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2017 was nil.

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has 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 31 March 2017 (refer to Note 19).

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 19 Overseas Bank and Overseas Banking Group capital adequacy

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

%	31-Mar-17 Unaudited	31-Mar-16 Unaudited
Overseas Banking Group (excluding entities specifically excluded by APRA regulations) ^{1,2}		
Common Equity Tier 1 capital ratio	10.0	10.5
Additional Tier 1 capital ratio	1.7	1.6
Tier 1 capital ratio	11.7	12.1
Tier 2 capital ratio	2.3	1.9
Total regulatory capital ratio	14.0	14.0
Overseas Bank (Extended Licensed Entity) ^{1,3}		
Common Equity Tier 1 capital ratio	10.2	10.8
Additional Tier 1 capital ratio	1.8	1.8
Tier 1 capital ratio	12.0	12.6
Tier 2 capital ratio	2.6	2.2
Total regulatory capital ratio	14.6	14.8

¹ The capital ratios represent information mandated by APRA. The capital ratios of the Overseas Banking Group (including defined terms) 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).

² Overseas Banking Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Overseas Bank and its subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy (Level 2). The head of the Level 2 group is the Overseas Bank.

³ Overseas Bank (Extended Licensed Entity) comprises the Overseas Bank and its subsidiary entities that have been approved by APRA as being part of a single Extended Licensed Entity for the purposes of measuring capital adequacy (Level 1).

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 the Capital Adequacy Framework (Internal Models Based Approach) 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 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 (excluding entities specifically excluded by APRA regulations), 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 2017.

Notes to the financial statements

Note 20 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 2017.

Profitability	31-Mar-17 Unaudited
Net profit after tax for the six months ended 31 March 2017 (A\$ millions)	3,912
Net profit after tax (for the 12 month period to 31 March 2017) as a percentage of average total assets	0.9%
Total assets and equity	31-Mar-17 Unaudited
Total assets (A\$ millions)	839,993
Percentage change in total assets over the 12 months ended 31 March 2017	1.0%
Total equity (A\$ millions)	59,372
Asset quality	31-Mar-17 Unaudited
Total individually impaired assets ^{1,2} (A\$ millions)	1,978
Total individually impaired assets as a percentage of total assets	0.2%
Total individual credit impairment allowance ³ (A\$ millions)	1,030
Total individual credit impairment allowance as a percentage of total individually impaired assets	52.1%
Total collective credit impairment allowance ³ (A\$ millions)	2,726

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\$713 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 both include A\$243 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.



Independent Auditor's Review Report

To the Directors of Westpac Banking Corporation

Report on the financial statements

We have reviewed pages 4 to 26 of the half year Disclosure Statement of Westpac Banking Corporation - New Zealand Branch (the "NZ Branch"), 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 2017, 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 NZ Banking Group. The "NZ Banking Group" comprises the New Zealand operations of the Westpac Banking Corporation Group.

Directors' responsibility for the financial statements

The Directors of Westpac Banking Corporation (the "Directors") are responsible on behalf of the NZ Branch 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 2017, 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.

Our responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 10, 12 and 14 of the Order, presented by the Directors, based on our review.

Our responsibility is to express a conclusion on the financial statements (excluding the supplementary information) 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 and International Accounting Standard 34: Interim Financial Reporting.

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) 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.

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Independent auditor's review report (continued)



Our responsibility is to express a conclusion on 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.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410"). As the auditor of the NZ Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on the financial statements.

We are independent of the NZ Banking Group. We carry out other assignments on behalf of the NZ Banking Group in the areas of other assurance and agreed procedures. 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 auditor of the Banking Group.

Conclusion

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

- (a) the financial statements on pages 4 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 International Accounting Standard 34: *Interim Financial Reporting*;
- (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.

Independent auditor's review report (continued)



Who we report to

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 Westpac Banking Corporation and the Directors, as a body, for our review procedures, for this report or for the conclusion we have formed.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
29 May 2017

Auckland

