
Westpac Banking Corporation – New Zealand Banking Group

Disclosure Statement

For the six months ended 31 March 2018



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General information

Certain information contained in this Disclosure Statement is required by 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.

Limits on material financial support by the ultimate parent bank

On 19 November 2015, the Australian Prudential Regulation Authority ('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 5% of the Overseas Bank's Level 1 Tier 1 capital, as part of an initiative to reduce Australian bank non-equity exposure to their respective New Zealand banking subsidiaries and branches.

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 5% limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% 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 2018, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Overseas Bank.

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.

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
Nerida Frances Caesar, BCom, MBA, GAICD
Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD
Catriona Alison Deans, BA, MBA, GAICD
Craig William Dunn, BCom, FCA
Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD
Peter Ralph Marriott, BEc (Hons.), FCA
Peter Stanley Nash, BCom, FCA, F Fin

Changes to Directorate

Robert George Elstone ceased to be a director on 8 December 2017. On 7 February 2018, the Overseas Bank announced the appointment of Peter Stanley Nash to its Board of Directors (the 'Board') effective 7 March 2018. There have been no other changes in the composition of the Board since 30 September 2017.

Chief Executive Officer, NZ Branch

Karen Lee 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 of New Zealand Act 1989 ('Reserve Bank Act').

General information (continued)

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 the Directors signed this Disclosure Statement:

| Rating Agency | Current Credit Rating | Rating Outlook |
|---------------------------|-----------------------|----------------|
| Fitch Ratings | AA- | Stable |
| Moody's Investors Service | Aa3 | Stable |
| S&P Global Ratings | AA- | Negative |

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

Disclosure Statements of the NZ Banking Group 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 2017 and for the six months ended 31 March 2018, 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 the Directors and Chief Executive Officer, NZ Branch signed this Disclosure Statement.

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

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.

On 3 May 2018 the Financial Markets Authority ('FMA') and the Reserve Bank of New Zealand ('Reserve Bank') sent a letter to the chief executives of New Zealand's registered banks (including Westpac New Zealand) requesting information on what work had been undertaken in each bank to identify and address any conduct and culture issues. This was in response to the Australian Royal Commission into misconduct in banking, superannuation and other financial services. The purpose of the request was to understand how New Zealand banks had obtained assurance that misconduct of the type highlighted in Australia is not taking place in New Zealand. Westpac New Zealand responded to this request on 18 May 2018. The FMA and the Reserve Bank sent a similar letter to life insurers on 24 May 2018. The outcome of these engagements may lead to further scrutiny of the financial services industry in New Zealand.

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.

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 2018:

- (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 2018.

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 Silk as Chief Executive Officer, NZ Branch.



DA McLean



KL Silk

Dated this 29th day of May 2018

Income statement for the six months ended 31 March 2018

NZ BANKING GROUP

| \$ millions | Note | Six Months Ended 31 Mar 18 Unaudited | Six Months Ended 31 Mar 17 Unaudited | Year Ended 30 Sep 17 Audited |
|--|------|---|---|---------------------------------------|
| Interest income | | 2,008 | 1,973 | 3,981 |
| Interest expense | | (1,065) | (1,110) | (2,193) |
| Net interest income | | 943 | 863 | 1,788 |
| Non-interest income | 2 | 285 | 319 | 625 |
| Net operating income before operating expenses and impairment charges | | 1,228 | 1,182 | 2,413 |
| Operating expenses | | (487) | (490) | (1,006) |
| Impairment (charges)/benefits | 3 | (27) | 36 | 76 |
| Profit before income tax | | 714 | 728 | 1,483 |
| Income tax expense | | (201) | (206) | (424) |
| Net profit for the period/year | | 513 | 522 | 1,059 |

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

Statement of comprehensive income for the six months ended 31 March 2018

NZ BANKING GROUP

| \$ millions | Six Months Ended 31 Mar 18 Unaudited | Six Months Ended 31 Mar 17 Unaudited | Year Ended 30 Sep 17 Audited |
|---|---|---|---------------------------------------|
| Net profit for the period/year | 513 | 522 | 1,059 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Gains/(losses) on available-for-sale securities: | | | |
| Recognised in equity | 2 | 9 | 11 |
| Gains/(losses) on cash flow hedging instruments: | | | |
| Recognised in equity | (18) | (5) | (58) |
| Transferred to income statement | 32 | 57 | 104 |
| Income tax on items taken to or transferred from equity: | | | |
| Available-for-sale securities reserve | (1) | (3) | (3) |
| Cash flow hedge reserve | (4) | (15) | (13) |
| Items that will be not be reclassified subsequently to profit or loss | | | |
| Remeasurement of defined benefit obligation recognised in equity (net of tax) | (2) | 10 | 10 |
| Other comprehensive income for the period/year (net of tax) | 9 | 53 | 51 |
| Total comprehensive income for the period/year | 522 | 575 | 1,110 |

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

Balance sheet as at 31 March 2018

NZ BANKING GROUP

| \$ millions | Note | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
|--|------|------------------------|------------------------|----------------------|
| Assets | | | | |
| Cash and balances with central banks | | 2,131 | 1,534 | 1,761 |
| Receivables due from other financial institutions | | 620 | 800 | 471 |
| Other assets | | 465 | 417 | 423 |
| Trading securities and financial assets designated at fair value | | 3,497 | 3,691 | 3,949 |
| Derivative financial instruments | | 3,533 | 3,518 | 3,420 |
| Available-for-sale securities | | 3,555 | 3,818 | 4,087 |
| Loans | 4, 5 | 79,557 | 76,948 | 77,681 |
| Life insurance assets | | 280 | 275 | 304 |
| Due from related entities | | 1,628 | 595 | 2,623 |
| Property and equipment | | 140 | 145 | 146 |
| Deferred tax assets | | 139 | 142 | 136 |
| Intangible assets | | 671 | 650 | 665 |
| Total assets | | 96,216 | 92,533 | 95,666 |
| Liabilities | | | | |
| Payables due to other financial institutions | | 1,170 | 841 | 1,043 |
| Other liabilities | | 661 | 692 | 635 |
| Deposits and other borrowings | 7 | 62,183 | 58,429 | 58,998 |
| Other financial liabilities at fair value through income statement | 8 | 384 | 290 | 302 |
| Derivative financial instruments | | 3,107 | 4,195 | 3,475 |
| Due to related entities | | 2,599 | 3,469 | 3,646 |
| Debt issues | 9 | 14,970 | 15,803 | 16,729 |
| Current tax liabilities | | 41 | 19 | 88 |
| Provisions | | 90 | 81 | 97 |
| Loan capital | | 2,730 | 1,138 | 2,822 |
| Total liabilities | | 87,935 | 84,957 | 87,835 |
| Net assets | | 8,281 | 7,576 | 7,831 |
| Head office account | | | | |
| Branch capital | | 1,300 | 1,300 | 1,300 |
| Retained profits | | 783 | 699 | 740 |
| Total head office account | | 2,083 | 1,999 | 2,040 |
| NZ Banking Group equity | | | | |
| Share capital | | 143 | 143 | 143 |
| Reserves | | (53) | (62) | (64) |
| Retained profits | | 6,108 | 5,496 | 5,712 |
| Total NZ Banking Group equity | | 6,198 | 5,577 | 5,791 |
| Total equity attributable to the owners of the NZ Banking Group | | 8,281 | 7,576 | 7,831 |
| Interest earning and discount bearing assets | | 90,454 | 87,027 | 90,225 |
| Interest and discount bearing liabilities | | 77,498 | 74,089 | 77,611 |

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 2018

NZ BANKING GROUP

| \$ millions | NZ BRANCH | | OTHER MEMBERS OF THE NZ BANKING GROUP | | | | Total Equity |
|--|---------------------|------------------|---------------------------------------|---------------------------------------|-------------------------|------------------|--------------|
| | Head Office Account | | Share Capital | Reserves | | Retained Profits | |
| | Branch Capital | Retained Profits | | Available-for-sale Securities Reserve | Cash Flow Hedge Reserve | | |
| As at 1 October 2016 (Audited) | 1,300 | 613 | 143 | 1 | (106) | 5,086 | 7,037 |
| Six months ended 31 March 2017 (Unaudited) | | | | | | | |
| Net profit for the period | - | 86 | - | - | - | 436 | 522 |
| Net gains/(losses) from changes in fair value | - | - | - | 9 | (5) | - | 4 |
| Income tax effect | - | - | - | (3) | 1 | - | (2) |
| Transferred to income statement | - | - | - | - | 57 | - | 57 |
| Income tax effect | - | - | - | - | (16) | - | (16) |
| Remeasurement of defined benefit obligations | - | - | - | - | - | 13 | 13 |
| Income tax effect | - | - | - | - | - | (3) | (3) |
| Total comprehensive income for the six months ended 31 March 2017 | - | 86 | - | 6 | 37 | 446 | 575 |
| Transactions with owners: | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | (36) | (36) |
| As at 31 March 2017 (Unaudited) | 1,300 | 699 | 143 | 7 | (69) | 5,496 | 7,576 |
| As at 1 October 2016 (Audited) | 1,300 | 613 | 143 | 1 | (106) | 5,086 | 7,037 |
| Year ended 30 September 2017 (Audited) | | | | | | | |
| Net profit for the year | - | 127 | - | - | - | 932 | 1,059 |
| Net gains/(losses) from changes in fair value | - | - | - | 11 | (58) | - | (47) |
| Income tax effect | - | - | - | (3) | 16 | - | 13 |
| Transferred to income statement | - | - | - | - | 104 | - | 104 |
| Income tax effect | - | - | - | - | (29) | - | (29) |
| Remeasurement of defined benefit obligations | - | - | - | - | - | 14 | 14 |
| Income tax effect | - | - | - | - | - | (4) | (4) |
| Total comprehensive income for the year ended 30 September 2017 | - | 127 | - | 8 | 33 | 942 | 1,110 |
| Transactions with owners: | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | (316) | (316) |
| As at 30 September 2017 (Audited) | 1,300 | 740 | 143 | 9 | (73) | 5,712 | 7,831 |
| Six months ended 31 March 2018 (Unaudited) | | | | | | | |
| Net profit for the period | - | 43 | - | - | - | 470 | 513 |
| Net gains/(losses) from changes in fair value | - | - | - | 2 | (18) | - | (16) |
| Income tax effect | - | - | - | (1) | 5 | - | 4 |
| Transferred to income statement | - | - | - | - | 32 | - | 32 |
| Income tax effect | - | - | - | - | (9) | - | (9) |
| Remeasurement of defined benefit obligations | - | - | - | - | - | (3) | (3) |
| Income tax effect | - | - | - | - | - | 1 | 1 |
| Total comprehensive income for the six months ended 31 March 2018 | - | 43 | - | 1 | 10 | 468 | 522 |
| Transactions with owners: | | | | | | | |
| Dividends paid on ordinary shares (refer to Note 10) | - | - | - | - | - | (72) | (72) |
| As at 31 March 2018 (Unaudited) | 1,300 | 783 | 143 | 10 | (63) | 6,108 | 8,281 |

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 2018

NZ BANKING GROUP

| \$ millions | Six Months Ended 31 Mar 18 Unaudited | Six Months Ended 31 Mar 17 Unaudited | Year Ended 30 Sep 17 Audited |
|---|---|---|---------------------------------------|
| Cash flows from operating activities | | | |
| Interest income received | 2,002 | 1,982 | 3,968 |
| Interest expense paid | (1,120) | (1,152) | (2,182) |
| Non-interest income received | 256 | 285 | 641 |
| Operating expenses paid | (472) | (439) | (887) |
| Income tax paid | (254) | (253) | (397) |
| Cash flows from operating activities before changes in operating assets and liabilities | 412 | 423 | 1,143 |
| Net (increase)/decrease in: | | | |
| Receivables due from other financial institutions | 156 | 19 | 355 |
| Other assets | (24) | (2) | (17) |
| Trading securities and financial assets designated at fair value | 507 | 279 | 11 |
| Loans | (1,912) | (1,383) | (2,090) |
| Due from related entities | 1,112 | 465 | (1,689) |
| Net increase/(decrease) in: | | | |
| Payables due to other financial institutions | 127 | 225 | 427 |
| Other liabilities | 11 | 86 | 7 |
| Deposits and other borrowings | 3,185 | (362) | 207 |
| Other financial liabilities at fair value through income statement | 82 | (286) | (274) |
| Due to related entities ¹ | (884) | 133 | 849 |
| Net movement in external and related entity derivative financial instruments | (220) | (361) | (902) |
| Net cash provided by/(used in) operating activities | 2,552 | (764) | (1,973) |
| Cash flows from investing activities | | | |
| Purchase of available-for-sale securities | - | (128) | (533) |
| Proceeds from available-for-sale securities | 499 | 30 | 162 |
| Net movement in life insurance assets | 24 | (6) | (35) |
| Purchase of capitalised computer software | (30) | (26) | (64) |
| Purchase of property and equipment | (16) | (7) | (31) |
| Net cash provided by/(used in) investing activities | 477 | (137) | (501) |
| Cash flows from financing activities | | | |
| Net movement in due to related entities ¹ | (217) | (20) | (437) |
| Proceeds from debt issues | 550 | 5,644 | 7,490 |
| Repayments of debt issues | (2,615) | (4,650) | (5,698) |
| Issue of loan capital (net of transaction fees) | - | - | 1,706 |
| Dividends paid to ordinary shareholders | (72) | (36) | (316) |
| Net cash provided by/(used in) financing activities | (2,354) | 938 | 2,745 |
| Net increase/(decrease) in cash and cash equivalents | 675 | 37 | 271 |
| Cash and cash equivalents at beginning of the period/year | 1,801 | 1,530 | 1,530 |
| Cash and cash equivalents at end of the period/year | 2,476 | 1,567 | 1,801 |
| Cash and cash equivalents at end of the period/year comprise: | | | |
| Cash on hand | 381 | 215 | 282 |
| Balances with central banks | 1,750 | 1,319 | 1,479 |
| Receivables due from other financial institutions classified as cash and cash equivalents | 345 | 33 | 40 |
| Cash and cash equivalents at end of the period/year | 2,476 | 1,567 | 1,801 |

¹ Certain comparatives have been revised for consistency. The reclassification was made to better reflect the NZ Banking Group's cash flows from operating and financing activities and has no effect on the balance sheet or income statement.

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

These condensed consolidated interim financial statements ('**financial statements**') have been prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('**Order**') and Generally Accepted Accounting Practice, as appropriate for for-profit 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 2017. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

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 has been applied.

All amounts in these financial statements have been rounded to the nearest million 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 2017.

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 2017.

Comparative information has been revised where appropriate to conform to changes in presentation in the current reporting period and to enhance comparability. 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 18 Unaudited | Six Months Ended 31 Mar 17 Unaudited | Year Ended 30 Sep 17 Audited |
| Fees and commissions | 157 | 154 | 330 |
| Wealth management and insurance income | 75 | 54 | 130 |
| Trading income | 43 | 110 | 158 |
| Net ineffectiveness on qualifying hedges | 4 | (7) | (10) |
| Other non-interest income | 6 | 8 | 17 |
| Total non-interest income | 285 | 319 | 625 |

Note 3 Impairment charges/(benefits)

| \$ millions | NZ BANKING GROUP | | |
|--|--------------------------------------|--------------------------------------|------------------------------|
| | Six Months Ended 31 Mar 18 Unaudited | Six Months Ended 31 Mar 17 Unaudited | Year Ended 30 Sep 17 Audited |
| Individually assessed provisions raised | 19 | 9 | 18 |
| Reversal of previously recognised impairment charges | (4) | (48) | (67) |
| Collectively assessed provisions raised/(released) | 5 | (8) | (56) |
| Bad debts written-off/(recovered) directly to the income statement | 7 | 11 | 29 |
| Total impairment charges/(benefits) | 27 | (36) | (76) |

Notes to the financial statements

Note 4 Loans

NZ BANKING GROUP

| \$ millions | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
|--|--------------------------------|------------------------|----------------------|
| Overdrafts | 1,236 | 1,184 | 1,296 |
| Credit card outstandings | 1,548 | 1,492 | 1,518 |
| Money market loans | 1,228 | 1,362 | 1,250 |
| Term loans: | | | |
| Housing | 47,907 | 46,245 | 46,943 |
| Non-housing | 26,780 | 25,718 | 25,780 |
| Other | 1,234 | 1,345 | 1,244 |
| Total gross loans | 79,933 | 77,346 | 78,031 |
| Provisions for impairment charges on loans | (376) | (398) | (350) |
| Total net loans | 79,557 | 76,948 | 77,681 |

As at 31 March 2018, \$7,539 million of housing loans, accrued interest (representing accrued interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying 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 2017: \$7,539 million, 30 September 2017: \$7,535 million). These pledged assets 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 2017. As at 31 March 2018, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$5,506 million (31 March 2017: \$3,399 million, 30 September 2017: \$5,246 million).

Notes to the financial statements

Note 5 Asset quality

| | | NZ BANKING GROUP |
|--|------------------------|------------------|
| \$ millions | 31 Mar 18 Unaudited | |
| Neither past due nor impaired | 78,427 | |
| Past due but not impaired assets | | |
| Less than 30 days past due | 977 | |
| At least 30 days but less than 60 days past due | 160 | |
| At least 60 days but less than 90 days past due | 71 | |
| At least 90 days past due | 100 | |
| Total past due assets not impaired | 1,308 | |
| Individually impaired assets¹ | | |
| Balance at beginning of the period | 173 | |
| Additions | 58 | |
| Amounts written off | (2) | |
| Returned to performing or repaid | (31) | |
| Balance at end of the period | 198 | |
| Total gross loans² | 79,933 | |
| Individually assessed provisions | | |
| Balance at beginning of the period | 48 | |
| Impairment charges/(benefits): | | |
| New provisions | 19 | |
| Reversal of previously recognised impairment charges | (4) | |
| Amounts written off | (2) | |
| Balance at end of the period | 61 | |
| Collectively assessed provisions | | |
| Balance at beginning of the period | 332 | |
| Impairment charges/(benefits) | 5 | |
| Interest adjustments | 14 | |
| Balance at end of the period | 351 | |
| Total provisions for impairment charges on loans and credit commitments | 412 | |
| Provision for credit commitments | (36) | |
| Total provisions for impairment charges on loans | 376 | |
| Total net loans | 79,557 | |

¹ The NZ Banking Group had undrawn commitments of \$5 million (31 March 2017: \$8 million, 30 September 2017: \$4 million) to counterparties for whom drawn balances are classified as individually impaired assets as at 31 March 2018.

² The NZ Banking Group did not have other assets under administration as at 31 March 2018.

Note 6 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 disclosed in Note 4, the carrying value of these financial assets pledged as collateral is:

| | | | | NZ BANKING GROUP |
|--|------------------------|------------------------|----------------------|------------------|
| \$ millions | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited | |
| Cash | 272 | 767 | 430 | |
| Securities pledged under repurchase agreements: | | | | |
| Available-for-sale securities | - | - | 19 | |
| Trading securities and financial assets designated at fair value | 211 | 124 | 216 | |
| Total amount pledged to secure liabilities (excluding CB Programme) | 483 | 891 | 665 | |

Notes to the financial statements

Note 7 Deposits and other borrowings

| \$ millions | NZ BANKING GROUP | | |
|--|------------------------|------------------------|----------------------|
| | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
| Certificates of deposit | 555 | 1,617 | 593 |
| Non-interest bearing, repayable at call | 5,869 | 5,081 | 5,274 |
| Other interest bearing: | | | |
| At call | 24,164 | 23,894 | 23,117 |
| Term | 31,595 | 27,837 | 30,014 |
| Total deposits and other borrowings | 62,183 | 58,429 | 58,998 |

The NZ Branch held no retail deposits from individuals as at 31 March 2018 (31 March 2017: nil, 30 September 2017: nil).

Deposits and other borrowings have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 8 Other financial liabilities at fair value through income statement

| \$ millions | NZ BANKING GROUP | | |
|---|------------------------|------------------------|----------------------|
| | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
| Securities sold short | 173 | 166 | 67 |
| Security repurchase agreements | 211 | 124 | 235 |
| Total other financial liabilities at fair value through income statement | 384 | 290 | 302 |

Note 9 Debt issues

| \$ millions | NZ BANKING GROUP | | |
|--------------------------------|------------------------|------------------------|----------------------|
| | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
| Short-term debt | | | |
| Commercial paper | 590 | 2,398 | 1,642 |
| Total short-term debt | 590 | 2,398 | 1,642 |
| Long-term debt | | | |
| Non-domestic medium-term notes | 5,835 | 6,908 | 6,628 |
| Covered bonds | 5,487 | 3,386 | 5,236 |
| Domestic medium-term notes | 3,058 | 3,111 | 3,223 |
| Total long-term debt | 14,380 | 13,405 | 15,087 |
| Total debt issues | 14,970 | 15,803 | 16,729 |

Debt issues have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 10 Related entities

Controlled entities of the NZ Banking Group are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2017. There have been no changes to the controlled entities during the period.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 March 2018, amounted to \$5,826 million (31 March 2017: \$4,337 million, 30 September 2017: \$5,981 million).

In November 2017, the NZ Branch repaid \$200 million of funding owing to the Overseas Bank.

On 26 March 2018, \$72 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 \$10 million to Westpac Equity Holdings Pty Limited; and
- Westpac Financial Services Group-NZ- Limited declared and paid a dividend of \$58 million to Westpac Equity Holdings Pty Limited.

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities

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 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 incorporates 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 technique |
|-----------------------------------|---|---|--|
| Exchange traded products | Derivative financial instruments Due from related entities Due to related entities | Exchange traded interest rate futures - derivative financial instruments | 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 contracts | |
| Non-asset backed debt instruments | Trading securities and financial assets designated at fair value Available-for-sale securities 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 prices. Valuation techniques include:

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

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities (continued)

| Instrument | Balance sheet category | Includes: | Valuation technique |
|---|--|--|--|
| Interest rate products | Derivative financial instruments | Interest rate swaps and options - 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. |
| | Due from related entities | | |
| | Due to related entities | | |
| Foreign exchange products | Derivative financial instruments | FX swaps and FX forward contracts - derivative financial instruments | Derived from market observable inputs or consensus pricing providers using industry standard models. |
| | Due from related entities | | |
| | Due to related entities | | |
| Asset backed debt instruments | Trading securities and financial assets designated at fair value | 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. |
| | Available-for-sale securities | | |
| Non-asset backed debt instruments | Trading securities and financial assets designated at fair value | Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds | Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices. |
| | Available-for-sale securities | | |
| | Other financial liabilities at fair value through income statement | | |
| Deposits and other borrowings at fair value | 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 | Commercial paper | 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 the Overseas Bank'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 technique |
|-------------------------------|--|---|--|
| Asset backed debt instruments | Trading securities and financial assets designated at fair value | Residential mortgage-backed securities ("RMBS") and certain 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 derivatives | 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 11 Fair value of financial assets and financial liabilities (continued)

The table below summarises the attribution of financial instruments measured at fair value on a recurring basis to the fair value hierarchy:

| NZ BANKING GROUP | | | | |
|--|----------------|----------------|----------------|---------------|
| 31 Mar 18 (Unaudited) | | | | |
| \$ millions | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value | | | | |
| Trading securities and financial assets designated at fair value | 54 | 3,443 | - | 3,497 |
| Derivative financial instruments | - | 3,533 | - | 3,533 |
| Available-for-sale securities | 1,183 | 2,372 | - | 3,555 |
| Life insurance assets | - | 280 | - | 280 |
| Due from related entities | - | 535 | - | 535 |
| Total financial assets measured at fair value | 1,237 | 10,163 | - | 11,400 |
| Financial liabilities measured at fair value | | | | |
| Deposits and other borrowings at fair value | - | 555 | - | 555 |
| Other financial liabilities at fair value through income statement | 165 | 219 | - | 384 |
| Derivative financial instruments | - | 3,107 | - | 3,107 |
| Due to related entities | 2 | 628 | - | 630 |
| Debt issues at fair value | - | 590 | - | 590 |
| Total financial liabilities measured at fair value | 167 | 5,099 | - | 5,266 |

| NZ BANKING GROUP | | | | |
|--|----------------|----------------|----------------------------|---------------|
| 31 Mar 17 (Unaudited) | | | | |
| \$ millions | Level 1 | Level 2 | Level 3¹ | Total |
| Financial assets measured at fair value | | | | |
| Trading securities and 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 measured at fair value | 2,324 | 9,430 | 84 | 11,838 |
| Financial liabilities measured at fair value | | | | |
| Deposits and other borrowings 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 |
| Due to related entities | 4 | 693 | - | 697 |
| Debt issues at fair value | - | 2,398 | - | 2,398 |
| Total financial liabilities measured at fair value | 95 | 9,102 | - | 9,197 |

| NZ BANKING GROUP | | | | |
|--|----------------|----------------|----------------------------|---------------|
| 30 Sep 17 (Audited) | | | | |
| \$ millions | Level 1 | Level 2 | Level 3¹ | Total |
| Financial assets measured at fair value | | | | |
| Trading securities and financial assets designated at fair value | 91 | 3,800 | 58 | 3,949 |
| Derivative financial instruments | 1 | 3,419 | - | 3,420 |
| Available-for-sale securities | 1,556 | 2,531 | - | 4,087 |
| Life insurance assets | - | 304 | - | 304 |
| Due from related entities | 1 | 409 | - | 410 |
| Total financial assets measured at fair value | 1,649 | 10,463 | 58 | 12,170 |
| Financial liabilities measured at fair value | | | | |
| Deposits and other borrowings at fair value | - | 593 | - | 593 |
| Other financial liabilities at fair value through income statement | 39 | 263 | - | 302 |
| Derivative financial instruments | - | 3,475 | - | 3,475 |
| Due to related entities | 1 | 574 | - | 575 |
| Debt issues at fair value | - | 1,642 | - | 1,642 |
| Total financial liabilities measured at fair value | 40 | 6,547 | - | 6,587 |

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

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities (continued)

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 2018 (31 March 2017: no material changes in fair value, 30 September 2017: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (31 March 2017: no material transfers between levels, 30 September 2017: no material transfers between levels).

Financial instruments not measured at fair value

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

| \$ millions | NZ BANKING GROUP | | | | | |
|---|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | 31 Mar 18 (Unaudited) | | 31 Mar 17 (Unaudited) | | 30 Sep 17 (Unaudited) | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Cash and balances with central banks | 2,131 | 2,131 | 1,534 | 1,534 | 1,761 | 1,761 |
| Receivables due from other financial institutions | 620 | 620 | 800 | 800 | 471 | 471 |
| Other assets | 396 | 396 | 359 | 359 | 378 | 378 |
| Loans | 79,557 | 79,638 | 76,948 | 76,968 | 77,681 | 77,717 |
| Due from related entities | 1,093 | 1,093 | 59 | 59 | 2,213 | 2,213 |
| Total | 83,797 | 83,878 | 79,700 | 79,720 | 82,504 | 82,540 |
| Financial liabilities | | | | | | |
| Payables due to other financial institutions | 1,170 | 1,170 | 841 | 841 | 1,043 | 1,043 |
| Other liabilities | 532 | 532 | 583 | 583 | 521 | 521 |
| Deposits and other borrowings | 61,628 | 61,666 | 56,812 | 56,850 | 58,405 | 58,450 |
| Due to related entities | 1,969 | 1,980 | 2,772 | 2,786 | 3,071 | 3,084 |
| Debt issues | 14,380 | 14,522 | 13,405 | 13,554 | 15,087 | 15,259 |
| Loan capital | 2,730 | 2,773 | 1,138 | 1,187 | 2,822 | 2,921 |
| Total | 82,409 | 82,643 | 75,551 | 75,801 | 80,949 | 81,278 |

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 27 of the financial statements included in the Disclosure Statement for the year ended 30 September 2017.

Note 12 Credit related commitments, contingent assets and contingent liabilities

| \$ millions | NZ BANKING GROUP | | |
|---|---------------------|---------------------|-------------------|
| | 31 Mar 18 Unaudited | 31 Mar 17 Unaudited | 30 Sep 17 Audited |
| Letters of credit and guarantees | 1,067 | 1,181 | 1,041 |
| Commitments to extend credit | 25,119 | 24,665 | 25,111 |
| Other | 10 | 25 | 10 |
| Total undrawn credit commitments | 26,196 | 25,871 | 26,162 |

Contingent assets

The credit commitments shown in the table above also constitute contingent assets. These commitments would be classified as loans on the balance sheet on the contingent event occurring.

Contingent liabilities

The NZ Banking Group has 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.

Notes to the financial statements

Note 13 Segment reporting

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 reporting 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 2017 and the year ended 30 September 2017 has been restated following changes to the allocation of certain costs and 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 for the six months ended 31 March 2017 or the year ended 30 September 2017.

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 NZ IFRS 8 *Operating Segments* ('NZ IFRS' refers to applicable New Zealand equivalents to International Financial Reporting Standards);
- 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.

| \$ millions | NZ BANKING GROUP | | | | Total |
|--|-----------------------------|---|---------------------------|-------------------|---------------|
| | Consumer Banking and Wealth | Commercial, Corporate and Institutional | Investments and Insurance | Reconciling Items | |
| Six months ended 31 March 2018 (Unaudited) | | | | | |
| Net interest income | 567 | 359 | - | 17 | 943 |
| Non-interest income | 96 | 137 | 69 | (17) | 285 |
| Net operating income before operating expenses and impairment charges | 663 | 496 | 69 | - | 1,228 |
| Operating expenses | (342) | (125) | (15) | (5) | (487) |
| Impairment (charges)/benefits | (28) | 1 | - | - | (27) |
| Profit before income tax | 293 | 372 | 54 | (5) | 714 |
| Total gross loans | 45,735 | 34,183 | - | 15 | 79,933 |
| Total deposits and other borrowings | 35,259 | 26,369 | - | 555 | 62,183 |
| Six months ended 31 March 2017 (Unaudited) | | | | | |
| Net interest income | 508 | 352 | 1 | 2 | 863 |
| Non-interest income | 118 | 160 | 61 | (20) | 319 |
| Net operating income before operating expenses and impairment charges | 626 | 512 | 62 | (18) | 1,182 |
| Operating expenses | (366) | (124) | (14) | 14 | (490) |
| Impairment (charges)/benefits | (20) | 56 | - | - | 36 |
| Profit before income tax | 240 | 444 | 48 | (4) | 728 |
| Total gross loans | 43,824 | 33,480 | - | 42 | 77,346 |
| Total deposits and other borrowings | 33,670 | 23,142 | - | 1,617 | 58,429 |
| Year ended 30 September 2017 (Unaudited) | | | | | |
| Net interest income | 1,053 | 717 | 1 | 17 | 1,788 |
| Non-interest income | 219 | 288 | 131 | (13) | 625 |
| Net operating income before operating expenses and impairment charges | 1,272 | 1,005 | 132 | 4 | 2,413 |
| Operating expenses | (708) | (250) | (29) | (19) | (1,006) |
| Impairment (charges)/benefits | (34) | 97 | - | 13 | 76 |
| Profit before income tax | 530 | 852 | 103 | (2) | 1,483 |
| Total gross loans | 44,707 | 33,294 | - | 30 | 78,031 |
| Total deposits and other borrowings | 34,044 | 24,361 | - | 593 | 58,998 |

Notes to the financial statements

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

| | NZ BANKING GROUP |
|--|--------------------------------|
| \$ millions | 31 Mar 18 Unaudited |
| Total assets of insurance business | 194 |
| As a percentage of total consolidated assets of the NZ Banking Group | 0.20% |

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 2018 (Unaudited)

LVRs are calculated as the current exposure divided by the NZ Banking Group's valuation of the residential security at origination.

For loans originated from 1 January 2008, the NZ Banking Group utilises data from its loan 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.

Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

| | NZ BANKING GROUP | | | | | |
|---|--------------------------------|------------------------------------|------------------------------------|------------------------------------|--------------------|---------------|
| | 31 Mar 18 | | | | | |
| LVR range (\$ millions) | Does not exceed 60% | Exceeds 60% and not 70% | Exceeds 70% and not 80% | Exceeds 80% and not 90% | Exceeds 90% | Total |
| On-balance sheet exposures | 19,828 | 11,465 | 11,956 | 2,846 | 1,631 | 47,726 |
| Undrawn commitments and other off-balance sheet exposures | 5,039 | 1,223 | 898 | 119 | 184 | 7,463 |
| Value of exposures | 24,867 | 12,688 | 12,854 | 2,965 | 1,815 | 55,189 |

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.

| | NZ BANKING GROUP |
|--|-------------------------|
| \$ millions | 31 Mar 18 |
| Term loans - Housing (as disclosed in Note 4) | 47,907 |
| <i>Reconciling items:</i> | |
| Unamortised deferred fees and expenses | (166) |
| Fair value hedge adjustments | (15) |
| Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages | 9,933 |
| Undrawn at default ¹ | (2,470) |
| Residential mortgages by LVR | 55,189 |

¹ Estimate of the amount of committed exposure not expected to be drawn by the customer at the time of default.

Notes to the financial statements

Note 15 Risk management (continued)

15.2 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.

| | NZ BANKING GROUP |
|---|-------------------------|
| \$ millions | 31 Mar 18 |
| Cash and balances with central banks | 2,131 |
| Receivables due from other financial institutions | 345 |
| Supranational securities | 1,458 |
| NZ Government securities | 1,574 |
| NZ public securities | 1,301 |
| NZ corporate securities | 2,000 |
| Residential mortgage-backed securities | 3,950 |
| Total liquid assets | 12,759 |

Contractual maturity of financial liabilities (Unaudited)

The table below presents cash flows associated with financial liabilities, 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 liabilities 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. Derivative liabilities designated for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows over the remaining contractual term.

Derivatives held for trading and certain liabilities classified in other financial liabilities at fair value through income statement are not managed for liquidity purposes on the basis of their contractual maturity, and accordingly these liabilities are presented in either the on demand or up to 1 month columns. Only the financial instruments that the NZ Banking Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the following table.

Notes to the financial statements

Note 15 Risk management (continued)

NZ BANKING GROUP

31 Mar 18

| \$ millions | 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 | Total |
|--|---------------|---------------|---------------------------------|--------------------------------|-------------------------------|--------------|---------------|
| Financial liabilities | | | | | | | |
| Payables due to other financial institutions | 713 | 457 | - | - | - | - | 1,170 |
| Other liabilities | - | 212 | - | - | - | - | 212 |
| Deposits and other borrowings | 29,048 | 5,471 | 11,637 | 14,657 | 2,094 | - | 62,907 |
| Other financial liabilities at fair value through income statement | 173 | 211 | - | - | - | - | 384 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 2,530 | - | - | - | - | - | 2,530 |
| Held for hedging purposes (net settled) | - | 24 | 63 | 107 | 183 | 70 | 447 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | 6 | 14 | 206 | 1,881 | 596 | 2,703 |
| Cash inflow | - | - | - | (159) | (1,606) | (547) | (2,312) |
| Due to related entities: | | | | | | | |
| Non-derivative balances | 1,665 | - | 3 | 9 | 328 | - | 2,005 |
| Derivative financial instruments: | | | | | | | |
| Held for trading | 539 | - | - | - | - | - | 539 |
| Held for hedging purposes (gross settled): | | | | | | | |
| Cash outflow | - | - | 18 | 55 | 1,652 | - | 1,725 |
| Cash inflow | - | - | (17) | (48) | (1,548) | - | (1,613) |
| Debt issues | - | 10 | 412 | 1,725 | 12,708 | 995 | 15,850 |
| Loan capital | - | - | 14 | 40 | 229 | 3,017 | 3,300 |
| Total undiscounted financial liabilities | 34,668 | 6,391 | 12,144 | 16,592 | 15,921 | 4,131 | 89,847 |
| Total contingent liabilities and commitments | | | | | | | |
| Letters of credit and guarantees | 1,067 | - | - | - | - | - | 1,067 |
| Commitments to extend credit | 25,119 | - | - | - | - | - | 25,119 |
| Other commitments | 10 | - | - | - | - | - | 10 |
| Total undiscounted contingent liabilities and commitments | 26,196 | - | - | - | - | - | 26,196 |

15.3 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. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

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 months ended 31 March 2018 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with 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 months ended 31 March 2018:

Notes to the financial statements

Note 15 Risk management (continued)

| NZ BANKING GROUP | | | |
|------------------------|--------------------------------|--|-------------------------|
| 31 Mar 18 | | | |
| \$ millions | Implied Risk-weighted Exposure | | Notional Capital Charge |
| End-of-period | | | |
| Interest rate risk | 3,216 | | 257 |
| Foreign currency risk | 28 | | 2 |
| Equity risk | - | | - |
| | 3,244 | | 259 |
| Peak end-of-day | | | |
| Interest rate risk | 4,466 | | 357 |
| Foreign currency risk | 61 | | 5 |
| Equity risk | - | | - |

Interest rate sensitivity (Unaudited)

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 2018. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

| NZ BANKING GROUP | | | | | | | |
|--|----------------|----------------------------------|--------------------------------|-------------------------------|----------------|----------------------|---------------|
| 31 Mar 18 | | | | | | | |
| \$ millions | 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 | Total |
| Financial assets | | | | | | | |
| Cash and balances with central banks | 1,750 | - | - | - | - | 381 | 2,131 |
| Receivables due from other financial institutions | 617 | - | - | - | - | 3 | 620 |
| Other assets | - | - | - | - | - | 396 | 396 |
| Trading securities and financial assets designated at fair value | 2,742 | 376 | 40 | 6 | 333 | - | 3,497 |
| Derivative financial instruments | - | - | - | - | - | 3,533 | 3,533 |
| Available-for-sale securities | - | - | 1,406 | 761 | 1,388 | - | 3,555 |
| Loans | 43,361 | 5,415 | 11,050 | 14,511 | 5,596 | (376) | 79,557 |
| Life insurance assets | 5 | - | 1 | - | - | 274 | 280 |
| Due from related entities | 1,088 | - | - | - | 8 | 532 | 1,628 |
| Total financial assets | 49,563 | 5,791 | 12,497 | 15,278 | 7,325 | 4,743 | 95,197 |
| Non-financial assets | | | | | | | 1,019 |
| Total assets | | | | | | | 96,216 |
| Financial liabilities | | | | | | | |
| Payables due to other financial institutions | 1,168 | - | - | - | - | 2 | 1,170 |
| Other liabilities | - | - | - | - | - | 532 | 532 |
| Deposits and other borrowings | 40,065 | 8,227 | 6,058 | 1,320 | 644 | 5,869 | 62,183 |
| Other financial liabilities at fair value through income statement | 384 | - | - | - | - | - | 384 |
| Derivative financial instruments | - | - | - | - | - | 3,107 | 3,107 |
| Due to related entities | 1,932 | - | - | - | - | 667 | 2,599 |
| Debt issues | 4,288 | 1,327 | - | 1,617 | 7,738 | - | 14,970 |
| Loan capital | 1,106 | - | - | - | 1,624 | - | 2,730 |
| Total financial liabilities | 48,943 | 9,554 | 6,058 | 2,937 | 10,006 | 10,177 | 87,675 |
| Non-financial liabilities | | | | | | | 260 |
| Total liabilities | | | | | | | 87,935 |
| On-balance sheet interest rate repricing gap | 620 | (3,763) | 6,439 | 12,341 | (2,681) | | |
| Net derivative notional principals | | | | | | | |
| Net interest rate contracts (notional): | | | | | | | |
| Receivable/(payable) | 12,614 | (1,263) | (5,977) | (11,708) | 6,334 | | |
| Net interest rate repricing gap | 13,234 | (5,026) | 462 | 633 | 3,653 | | |

Notes to the financial statements

Note 16 Concentration of funding

| | NZ BANKING GROUP |
|--|--------------------------------|
| \$ millions | 31 Mar 18 Unaudited |
| Funding consists of | |
| Payables due to other financial institutions | 1,170 |
| Deposits and other borrowings | 62,183 |
| Other financial liabilities at fair value through income statement | 384 |
| Due to related entities ¹ | 1,956 |
| Debt issues ² | 14,970 |
| Loan capital | 2,730 |
| Total funding | 83,393 |
| Analysis of funding by geographical areas² | |
| New Zealand | 61,858 |
| Australia | 3,091 |
| United Kingdom | 8,376 |
| United States of America | 2,828 |
| Other | 7,240 |
| Total funding | 83,393 |
| Analysis of funding by industry sector | |
| Accommodation, cafes and restaurants | 366 |
| Agriculture | 1,370 |
| Construction | 1,643 |
| Finance and insurance | 31,768 |
| Forestry and fishing | 188 |
| Government, administration and defence | 2,026 |
| Manufacturing | 1,602 |
| Mining | 72 |
| Property services and business services | 5,793 |
| Services | 4,310 |
| Trade | 1,787 |
| Transport and storage | 848 |
| Utilities | 556 |
| Households | 25,353 |
| Other | 3,755 |
| Subtotal | 81,437 |
| Due to related entities ¹ | 1,956 |
| Total funding | 83,393 |

¹ Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivatives and other liabilities.

² 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.

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

Notes to the financial statements

Note 17 Concentration of credit exposures

NZ BANKING GROUP

| \$ millions | 31 Mar 18 Unaudited |
|--|------------------------|
| On-balance sheet credit exposures consists of | |
| Cash and balances with central banks | 2,131 |
| Receivables due from other financial institutions | 620 |
| Other assets | 396 |
| Trading securities and financial assets designated at fair value | 3,497 |
| Derivative financial instruments | 3,533 |
| Available-for-sale securities | 3,555 |
| Loans | 79,557 |
| Life insurance assets | 5 |
| Due from related entities | 1,628 |
| Total on-balance sheet credit exposures | 94,922 |
| Analysis of on-balance sheet credit exposures by industry sector | |
| Accommodation, cafes and restaurants | 407 |
| Agriculture | 8,205 |
| Construction | 518 |
| Finance and insurance | 9,209 |
| Forestry and fishing | 411 |
| Government, administration and defence | 6,635 |
| Manufacturing | 2,507 |
| Mining | 167 |
| Property | 6,621 |
| Property services and business services | 1,302 |
| Services | 1,831 |
| Trade | 2,160 |
| Transport and storage | 1,205 |
| Utilities | 2,429 |
| Retail lending | 49,958 |
| Other | 1 |
| Subtotal | 93,566 |
| Provisions for impairment charges on loans | (376) |
| Due from related entities | 1,628 |
| Other assets | 104 |
| Total on-balance sheet credit exposures | 94,922 |
| Off-balance sheet credit exposures consists of | |
| Credit risk-related instruments | 26,196 |
| Total off-balance sheet credit exposures | 26,196 |
| Analysis of off-balance sheet credit exposures by industry sector | |
| Accommodation, cafes and restaurants | 100 |
| Agriculture | 545 |
| Construction | 667 |
| Finance and insurance | 1,731 |
| Forestry and fishing | 138 |
| Government, administration and defence | 746 |
| Manufacturing | 1,684 |
| Mining | 168 |
| Property | 1,560 |
| Property services and business services | 563 |
| Services | 689 |
| Trade | 2,053 |
| Transport and storage | 783 |
| Utilities | 1,599 |
| Retail lending | 13,170 |
| Total off-balance sheet credit exposures | 26,196 |

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

Notes to the financial statements

Note 18 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 18 Unaudited | 31 Mar 17 Unaudited |
|--|------------------------|------------------------|
| Overseas Banking Group (excluding entities specifically excluded by APRA regulations)^{1,2} | | |
| Common Equity Tier 1 capital ratio | 10.5 | 10.0 |
| Additional Tier 1 capital ratio | 2.3 | 1.7 |
| Tier 1 capital ratio | 12.8 | 11.7 |
| Tier 2 capital ratio | 2.0 | 2.3 |
| Total regulatory capital ratio | 14.8 | 14.0 |
| Overseas Bank (Extended Licensed Entity)^{1,3} | | |
| Common Equity Tier 1 capital ratio | 10.4 | 10.2 |
| Additional Tier 1 capital ratio | 2.4 | 1.8 |
| Tier 1 capital ratio | 12.8 | 12.0 |
| Tier 2 capital ratio | 2.1 | 2.6 |
| Total regulatory capital ratio | 14.9 | 14.6 |

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

Under APRA's Prudential Standards, Australian authorised deposit taking institutions ('ADI'), including the Overseas Banking Group are required to maintain minimum ratios of capital to risk weighted assets ('RWA'), as determined by APRA. For the calculation of RWAs, the Overseas Banking Group is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group uses 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. APRA's prudential standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision ('BCBS'), except where APRA has exercised certain discretions.

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 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 2018.

Notes to the financial statements

Note 19 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2018.

| Profitability | 31 Mar 18 Unaudited |
|--|----------------------------|
| Net profit after tax for the six months ended 31 March 2018 (A\$ millions) | 4,200 |
| Net profit after tax for the 12 month period to 31 March 2018 as a percentage of average total assets | 1.0% |
| Total assets and equity | 31 Mar 18 Unaudited |
| Total assets (A\$ millions) | 871,855 |
| Percentage change in total assets over the 12 months ended 31 March 2018 | 3.8% |
| Total equity (A\$ millions) | 62,665 |
| Asset quality | 31 Mar 18 Unaudited |
| Total individually impaired assets ^{1,2} (A\$ millions) | 1,535 |
| Total individually impaired assets expressed as a percentage of total assets | 0.2% |
| Total individual credit impairment allowance ³ (A\$ millions) | 699 |
| Total individual credit impairment allowance expressed as a percentage of total individually impaired assets | 45.5% |
| Total collective credit impairment allowance ³ (A\$ millions) | 2,694 |

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\$722 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\$228 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.

Conditions of registration

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 2018.

These matters have no impact on the compliance by the Overseas Bank with its conditions of registration.

Changes to conditions of registration

On 19 December 2017, the Reserve Bank advised the Overseas Bank on changes to its conditions of registration to give effect to the Reserve Bank's further changes to the LVR restrictions, which ease those restrictions. These changes to the conditions of registration came into effect from 1 January 2018, being:

- (a) a limit of 5 per cent on new lending carried out in the relevant measurement period for residential property investment applies where the LVR is greater than 65 per cent (previously, the required LVR was 60 per cent), and
- (b) a limit of 15 percent (previously, the required limit was 10 per cent) on new non-residential property investment lending carried out in the measurement period applies where the LVR is greater than 80 per cent (previously, the required limit was 10 per cent).



Independent auditor's review report

To the Directors of Westpac Banking Corporation

Report on the financial statements

We have reviewed pages 4 to 24 of the Disclosure Statement for the six months ended 31 March 2018 (the "Disclosure Statement") of Westpac Banking Corporation – New Zealand Branch (the "Branch"), which includes the financial statements required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The financial statements comprise the balance sheet as at 31 March 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the 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 selected explanatory notes for the NZ Banking Group. The NZ Banking Group comprises the New Zealand operations of Westpac Banking Corporation.

Directors' responsibility for the financial statements

The Directors of Westpac Banking Corporation (the "Directors") are responsible on behalf of Westpac Banking Corporation, for the preparation and presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and 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, on behalf of Westpac Banking Corporation, for the preparation and presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Our responsibility

Our responsibility is to express the following conclusions on the financial statements and supplementary information presented by the Directors based on our review:

- in relation to 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* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- in relation to the supplementary information (excluding the supplementary information relating to credit and market risk exposures and 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, 12 and 14 of the Order; and
- in relation to the supplementary information relating to credit and market risk exposures and 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 is not, in all material respects, 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.



Independent auditor's review report (continued)

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 and supplementary information.

We are independent of the NZ Banking Group. Our firm carries out other services for 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 on normal terms within the ordinary course of trading activities of the NZ Banking Group. These matters have not impaired our independence as auditor of the NZ Banking Group.

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

- a) the financial statements on pages 4 to 24 (excluding the supplementary information) have not been prepared in all material respects, in accordance with NZ IAS 34 and IAS 34;
- b) the supplementary information prescribed by Schedules 5, 7, 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 disclosed in accordance with Schedule 9 of the Order.

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 those matters which we are required to state to them in our 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 conclusions we have formed.

For and on behalf of:

A handwritten signature in blue ink that reads 'Penelope Louise Cooper'.

Chartered Accountant
29 May 2018

Auckland

