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# **Westpac Banking Corporation – New Zealand Banking Group Disclosure Statement**

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For the nine months ended 30 June 2017



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## General information

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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

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 30 June 2017, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were approximately 5.3% of Level 1 Tier 1 capital of the Overseas Bank. Non-equity exposures would need to reduce by approximately \$0.1 billion from the 30 June 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. On 22 August 2017, the Overseas Bank announced that Nerida Caesar has been appointed to its Board of Directors (the '**Board**') effective 1 September 2017. There have been no other changes in the composition of the Overseas Bank's 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 of New Zealand Act 1989 ('Reserve Bank Act').

## 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	Aa3	Stable
S&P Global Ratings	AA-	Negative

On 19 June 2017, Moody's Investors Service ('Moody's') downgraded the Overseas Bank's credit rating to Aa3. The downgrade follows Moody's revision of the Australian Macro Profile to "Strong +" from "Very Strong -". At the same time, Moody's revised the outlook to 'stable' from 'negative'.

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2016 and for the six months ended 31 March 2017, respectively, and can be accessed at the internet address [www.westpac.com.au](http://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.

## 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 nine months ended 30 June 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**

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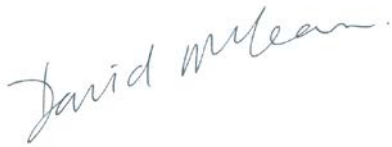
Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believe, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

- (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 nine months ended 30 June 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 nine months ended 30 June 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 24th day of August 2017

## Income statement for the nine months ended 30 June 2017

\$ millions	Note	NZ Banking Group		
		Nine Months Ended 30-Jun-17 Unaudited	Nine Months Ended 30-Jun-16 Unaudited	Year Ended 30-Sep-16 Audited
Interest income		2,965	3,148	4,172
Interest expense		(1,658)	(1,820)	(2,398)
<b>Net interest income</b>		<b>1,307</b>	<b>1,328</b>	<b>1,774</b>
Non-interest income	2	489	425	588
<b>Net operating income</b>		<b>1,796</b>	<b>1,753</b>	<b>2,362</b>
Operating expenses		(759)	(716)	(953)
Impairment benefits/(charges)	3	49	(12)	(73)
<b>Profit before income tax expense</b>		<b>1,086</b>	<b>1,025</b>	<b>1,336</b>
Income tax expense		(309)	(286)	(373)
<b>Profit after income tax expense</b>		<b>777</b>	<b>739</b>	<b>963</b>

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

## Statement of comprehensive income for the nine months ended 30 June 2017

\$ millions	NZ Banking Group		
	Nine Months Ended 30-Jun-17 Unaudited	Nine Months Ended 30-Jun-16 Unaudited	Year Ended 30-Sep-16 Audited
<b>Profit after income tax expense</b>	<b>777</b>	<b>739</b>	<b>963</b>
<b>Other comprehensive income/(expense) which may be reclassified subsequently to the income statement:</b>			
Available-for-sale securities:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	13	(15)	(21)
Income tax effect	(4)	4	6
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(50)	(104)	(117)
Transferred to the income statement	82	105	133
Income tax effect	(9)	-	(4)
<b>Total other comprehensive income/(expense) which may be reclassified subsequently to the income statement</b>	<b>32</b>	<b>(10)</b>	<b>(3)</b>
<b>Other comprehensive income/(expense) which will not be reclassified subsequently to the income statement:</b>			
Remeasurement of employee defined benefit obligations	13	(2)	(7)
Income tax effect	(3)	1	2
<b>Total other comprehensive income/(expense) which will not be reclassified subsequently to the income statement</b>	<b>10</b>	<b>(1)</b>	<b>(5)</b>
<b>Total other comprehensive income/(expense), net of tax</b>	<b>42</b>	<b>(11)</b>	<b>(8)</b>
<b>Total comprehensive income</b>	<b>819</b>	<b>728</b>	<b>955</b>

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

## Balance sheet as at 30 June 2017

\$ millions	Note	NZ Banking Group		
		30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
<b>Assets</b>				
Cash and balances with central banks		1,528	1,851	1,472
Due from other financial institutions		803	625	844
Trading securities and other financial assets designated at fair value		3,927	3,715	4,035
Derivative financial instruments		3,654	5,134	4,838
Available-for-sale securities		3,945	3,777	3,790
Loans	4	77,494	74,225	75,582
Life insurance assets		283	253	269
Due from related entities		1,020	1,244	1,218
Investment in associate		8	7	9
Property and equipment		140	143	161
Current tax assets		22	56	-
Deferred tax assets		145	159	166
Intangible assets		651	649	650
Other assets		595	329	324
<b>Total assets</b>		<b>94,215</b>	<b>92,167</b>	<b>93,358</b>
<b>Liabilities</b>				
Due to other financial institutions		563	413	616
Deposits and other borrowings	7	58,410	57,324	58,791
Other financial liabilities at fair value through income statement	8	523	138	576
Derivative financial instruments		4,863	7,039	6,236
Debt issues	9	16,786	15,190	14,727
Current tax liabilities		-	-	70
Provisions		89	84	99
Other liabilities		780	578	590
<b>Total liabilities excluding related entities liabilities</b>		<b>82,014</b>	<b>80,766</b>	<b>81,705</b>
Due to related entities		3,289	3,501	3,525
Subordinated notes		1,092	1,090	1,091
<b>Total related entities liabilities</b>		<b>4,381</b>	<b>4,591</b>	<b>4,616</b>
<b>Total liabilities</b>		<b>86,395</b>	<b>85,357</b>	<b>86,321</b>
<b>Net assets</b>		<b>7,820</b>	<b>6,810</b>	<b>7,037</b>
<b>Equity</b>				
<b>Head office account</b>				
Branch capital		1,300	1,300	1,300
Retained profits		722	595	613
<b>Total head office account</b>		<b>2,022</b>	<b>1,895</b>	<b>1,913</b>
<b>NZ Banking Group equity</b>				
Ordinary share capital		143	143	143
Retained profits		5,728	4,884	5,086
Available-for-sale securities reserve		10	5	1
Cash flow hedge reserve		(83)	(117)	(106)
<b>Total equity attributable to owners of the NZ Banking Group</b>		<b>5,798</b>	<b>4,915</b>	<b>5,124</b>
<b>Total equity</b>		<b>7,820</b>	<b>6,810</b>	<b>7,037</b>
Interest earning and discount bearing assets		87,904	84,724	86,427
Interest and discount bearing liabilities		74,619	72,059	73,743

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

**Statement of changes in equity** for the nine months ended 30 June 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	
<b>As at 1 October 2015 (Audited)</b>	1,300	524	143	4,328	16	(118)	6,193
<b>Nine months ended 30 June 2016 (Unaudited)</b>							
Profit after income tax expense	-	71	-	668	-	-	739
Net losses from changes in fair value	-	-	-	-	(15)	(104)	(119)
Income tax effect	-	-	-	-	4	29	33
Transferred to the income statement	-	-	-	-	-	105	105
Income tax effect	-	-	-	-	-	(29)	(29)
Remeasurement of employee defined benefit obligations	-	-	-	(2)	-	-	(2)
Income tax effect	-	-	-	1	-	-	1
<b>Total comprehensive income for the nine months ended 30 June 2016</b>	-	71	-	667	(11)	1	728
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	(111)	-	-	(111)
<b>As at 30 June 2016 (Unaudited)</b>	1,300	595	143	4,884	5	(117)	6,810
<b>Year ended 30 September 2016 (Audited)</b>							
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
<b>Total comprehensive income for the year ended 30 September 2016</b>	-	89	-	869	(15)	12	955
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	(111)	-	-	(111)
<b>As at 30 September 2016 (Audited)</b>	1,300	613	143	5,086	1	(106)	7,037
<b>Nine months ended 30 June 2017 (Unaudited)</b>							
Profit after income tax expense	-	109	-	668	-	-	777
Net gains/(losses) from changes in fair value	-	-	-	-	13	(50)	(37)
Income tax effect	-	-	-	-	(4)	14	10
Transferred to income statement	-	-	-	-	-	82	82
Income tax effect	-	-	-	-	-	(23)	(23)
Remeasurement of employee defined benefit obligations	-	-	-	13	-	-	13
Income tax effect	-	-	-	(3)	-	-	(3)
<b>Total comprehensive income for the nine months ended 30 June 2017</b>	-	109	-	678	9	23	819
Transactions with owners:							
Dividends paid on ordinary shares (refer to Note 10)	-	-	-	(36)	-	-	(36)
<b>As at 30 June 2017 (Unaudited)</b>	1,300	722	143	5,728	10	(83)	7,820

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



**Statement of cash flows** for the nine months ended 30 June 2017

<b>\$ millions</b>	<b>NZ Banking Group</b>		
	Nine Months Ended 30-Jun-17 Unaudited	Nine Months Ended 30-Jun-16 Unaudited	Year Ended 30-Sep-16 Audited
<b>Cash flows from operating activities</b>			
Interest income received	2,963	3,160	4,198
Interest expense paid	(1,649)	(1,820)	(2,403)
Non-interest income received	447	396	521
Operating expenses paid	(680)	(632)	(838)
Income tax paid	(402)	(359)	(328)
Cash flows from operating activities before changes in operating assets and liabilities	679	745	1,150
Net decrease/(increase) in:			
Due from other financial institutions	142	(518)	(716)
Trading securities and other financial assets designated at fair value	24	342	53
Loans	(1,929)	(4,667)	(6,107)
Due from related entities	406	2,116	1,897
Other assets	(3)	3	3
Net (decrease)/increase in:			
Due to other financial institutions	(53)	(424)	(221)
Deposits and other borrowings	(381)	4,338	5,805
Other financial liabilities at fair value through income statement	(53)	(141)	297
Other liabilities	11	6	(4)
Net movement in external and related entity derivative financial instruments	(478)	(1,462)	(1,915)
<b>Net cash (used in)/provided by operating activities</b>	<b>(1,635)</b>	<b>338</b>	<b>242</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale securities	(269)	(534)	(652)
Proceeds from maturities/sale of available-for-sale securities	53	200	300
Net movement in life insurance assets	(14)	12	(4)
Purchase of capitalised computer software	(41)	(39)	(56)
Purchase of property and equipment	(13)	(7)	(25)
<b>Net cash used in investing activities</b>	<b>(284)</b>	<b>(368)</b>	<b>(437)</b>
<b>Cash flows from financing activities</b>			
Proceeds from debt issues	7,516	6,968	7,840
Repayments of debt issues	(5,270)	(4,962)	(6,018)
Net movement in due to related entities	(134)	(252)	(261)
Redemption of subordinated debentures	-	(762)	(762)
Dividends paid to ordinary shareholders	(36)	(111)	(111)
<b>Net cash provided by financing activities</b>	<b>2,076</b>	<b>881</b>	<b>688</b>
<b>Net increase in cash and cash equivalents</b>	<b>157</b>	<b>851</b>	<b>493</b>
Cash and cash equivalents at beginning of the period/year	1,530	1,037	1,037
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,687</b>	<b>1,888</b>	<b>1,530</b>
<b>Cash and cash equivalents at end of the period/year comprise:</b>			
Cash on hand	248	183	253
Cash and balances with central banks	1,280	1,668	1,219
Due from other financial institutions	159	37	58
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,687</b>	<b>1,888</b>	<b>1,530</b>

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 Order and 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 Statements for the year ended 30 September 2016 and for the six months ended 31 March 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 in millions of New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 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		
	Nine Months Ended	Nine Months Ended	Year Ended
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Fees and commissions	249	227	302
Wealth management revenue	94	113	150
Trading income	141	68	104
Net ineffectiveness on qualifying hedges	(8)	2	4
Other non-interest income	13	15	28
<b>Total non-interest income</b>	<b>489</b>	<b>425</b>	<b>588</b>

## Note 3 Impairment charges

\$ millions	NZ Banking Group		
	Nine Months Ended	Nine Months Ended	Year Ended
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Collectively assessed provisions	(22)	(24)	8
Individually assessed provisions <sup>1</sup>	(47)	2	6
Bad debts written off directly to the income statement	20	34	59
<b>Total impairment (benefits)/charges</b>	<b>(49)</b>	<b>12</b>	<b>73</b>

<sup>1</sup> Individually assessed provisions reduced during the reporting period as a result of recoveries of amounts previously impaired, which exceeded recovery expectations.

## Note 4 Loans

\$ millions	NZ Banking Group		
	30-Jun-17	30-Jun-16	30-Sep-16
	Unaudited	Unaudited	Audited
Overdrafts	1,183	1,220	1,313
Credit card outstandings	1,487	1,535	1,503
Money market loans	1,424	1,456	1,362
Term loans:			
Housing	46,785	44,626	45,126
Non-housing	25,654	24,486	25,425
Other	1,344	1,303	1,288
<b>Total gross loans</b>	<b>77,877</b>	<b>74,626</b>	<b>76,017</b>
Provisions for impairment charges	(383)	(401)	(435)
<b>Total net loans</b>	<b>77,494</b>	<b>74,225</b>	<b>75,582</b>

# Notes to the financial statements

## Note 4 Loans (continued)

As at 30 June 2017, \$6,452 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') (30 June 2016: \$7,089 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 30 June 2017, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$4,996 million (30 June 2016: \$3,524 million, 30 September 2016: \$3,480 million).

## Note 5 Asset quality

\$ millions	NZ Banking Group	
	30-Jun-17	Unaudited
Assets at least 90 days past due but not impaired	87	
Individually impaired assets	174	
Individually assessed provisions	55	
Collectively assessed provisions	361	

## 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 (refer to Note 4), the carrying value of these financial assets pledged as collateral is:

\$ millions	NZ Banking Group		
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Cash	613	588	786
Securities pledged under repurchase agreements			
Available-for-sale securities	301	-	400
Trading securities and other financial assets designated at fair value	66	6	44
<b>Total amount pledged to secure liabilities (excluding CB Programme)</b>	<b>980</b>	<b>594</b>	<b>1,230</b>

## Note 7 Deposits and other borrowings

\$ millions	NZ Banking Group		
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Certificates of deposit	770	1,461	1,250
Non-interest bearing, repayable at call	5,188	4,637	4,621
Other interest bearing:			
At call	23,332	25,299	23,741
Term	29,120	25,927	29,179
<b>Total deposits and other borrowings</b>	<b>58,410</b>	<b>57,324</b>	<b>58,791</b>

The NZ Branch held no retail deposits from individuals as at 30 June 2017 (30 June 2016: nil, 30 September 2016: 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		
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Securities sold short	156	90	132
Security repurchase agreements	367	48	444
<b>Total other financial liabilities at fair value through income statement</b>	<b>523</b>	<b>138</b>	<b>576</b>

# Notes to the financial statements

## Note 9 Debt issues

\$ millions	NZ Banking Group		
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
<b>Short-term debt</b>			
Commercial paper	2,081	2,305	2,410
<b>Total short-term debt</b>	<b>2,081</b>	<b>2,305</b>	<b>2,410</b>
<b>Long-term debt</b>			
Non-domestic medium-term notes	6,193	5,793	5,616
Covered bonds	4,996	3,524	3,480
Domestic medium-term notes	3,516	3,568	3,221
<b>Total long-term debt</b>	<b>14,705</b>	<b>12,885</b>	<b>12,317</b>
<b>Total debt issues</b>	<b>16,786</b>	<b>15,190</b>	<b>14,727</b>
<b>Movement in debt issues</b>			
Balance at beginning of the period/year	14,727	14,685	14,685
Issuance during the period/year	7,516	6,968	7,840
Repayments during the period/year	(5,270)	(4,962)	(6,018)
Effect of foreign exchange movements during the period/year	(53)	(1,556)	(1,824)
Effect of fair value movements and amortisation adjustments during the period/year	(134)	55	44
<b>Balance at end of the period/year</b>	<b>16,786</b>	<b>15,190</b>	<b>14,727</b>

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 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 30 June 2017, amounted to \$5,269 million (30 June 2016: \$6,916 million, 30 September 2016: \$6,189 million).

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

## Note 11 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.

## Note 11 Fair value of financial instruments (continued)

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	
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	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.
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.

# Notes to the financial statements

## Note 11 Fair value of financial instruments (continued)

Instrument	Balance sheet category	Includes:	Valuation
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.

The following table summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

\$ millions	NZ Banking Group			Total
	Level 1	Level 2	Level 3 <sup>1</sup>	
<b>Financial assets measured at fair value on a recurring basis</b>				
Trading securities and other financial assets designated at fair value	339	3,514	74	3,927
Derivative financial instruments	-	3,650	4	3,654
Available-for-sale securities	1,566	2,379	-	3,945
Life insurance assets	-	283	-	283
Due from related entities	1	903	-	904
<b>Total financial assets carried at fair value</b>	<b>1,906</b>	<b>10,729</b>	<b>78</b>	<b>12,713</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>				
Deposits at fair value	-	770	-	770
Other financial liabilities at fair value through income statement	121	402	-	523
Derivative financial instruments	-	4,863	-	4,863
Debt issues at fair value	-	2,081	-	2,081
Due to related entities	2	778	-	780
<b>Total financial liabilities carried at fair value</b>	<b>123</b>	<b>8,894</b>	<b>-</b>	<b>9,017</b>

<sup>1</sup> 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 11 Fair value of financial instruments (continued)

\$ millions	NZ Banking Group			
	30-Jun-16 (Unaudited)			
	Level 1	Level 2	Level 3 <sup>1</sup>	Total
<b>Financial assets measured at fair value on a recurring basis</b>				
Trading securities and other financial assets designated at fair value	366	3,292	57	3,715
Derivative financial instruments	3	5,126	5	5,134
Available-for-sale securities	1,617	2,160	-	3,777
Life insurance assets	-	253	-	253
Due from related entities	-	939	-	939
<b>Total financial assets carried at fair value</b>	<b>1,986</b>	<b>11,770</b>	<b>62</b>	<b>13,818</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>				
Deposits at fair value	-	1,461	-	1,461
Other financial liabilities at fair value through income statement	90	48	-	138
Derivative financial instruments	-	7,039	-	7,039
Debt issues at fair value	-	2,305	-	2,305
Due to related entities	-	878	-	878
<b>Total financial liabilities carried at fair value</b>	<b>90</b>	<b>11,731</b>	<b>-</b>	<b>11,821</b>

\$ millions	NZ Banking Group			
	30-Sep-16 (Audited)			
	Level 1	Level 2	Level 3 <sup>1</sup>	Total
<b>Financial assets measured at fair value on a recurring basis</b>				
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
<b>Total financial assets carried at fair value</b>	<b>2,276</b>	<b>11,246</b>	<b>104</b>	<b>13,626</b>
<b>Financial liabilities measured at fair value on a recurring basis</b>				
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
<b>Total financial liabilities carried at fair value</b>	<b>132</b>	<b>11,221</b>	<b>-</b>	<b>11,353</b>

<sup>1</sup> 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.

### 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 nine months ended 30 June 2017 (30 June 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 (30 June 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 of the NZ Banking Group's financial instruments not measured at fair value:

\$ millions	NZ Banking Group					
	30-Jun-17 (Unaudited)		30-Jun-16 (Unaudited)		30-Sep-16 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
<b>Financial assets not measured at fair value</b>						
Loans	77,494	77,505	74,225	74,519	75,582	75,831
<b>Total financial assets</b>	<b>77,494</b>	<b>77,505</b>	<b>74,225</b>	<b>74,519</b>	<b>75,582</b>	<b>75,831</b>
<b>Financial liabilities not measured at fair value</b>						
Deposits and other borrowings	57,640	57,682	55,863	55,931	57,541	57,597
Debt issues	14,705	14,856	12,885	13,018	12,317	12,473
Due to related entities	2,509	2,521	2,623	2,632	2,644	2,658
Subordinated debentures	1,092	1,140	1,090	1,066	1,091	1,111
<b>Total financial liabilities</b>	<b>75,946</b>	<b>76,199</b>	<b>72,461</b>	<b>72,647</b>	<b>73,593</b>	<b>73,839</b>

For cash and balances with central banks, due from and due to other financial institutions and 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 repriced frequently, and are of a high credit rating.

# Notes to the financial statements

## Note 11 Fair value of financial instruments (continued)

A detailed 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 12 Credit related commitments and contingent liabilities

\$ millions	NZ Banking Group		
	30-Jun-17 Unaudited	30-Jun-16 Unaudited	30-Sep-16 Audited
Letters of credit and guarantees	1,086	1,280	1,347
Commitments to extend credit	24,331	24,588	23,988
Other commitments	24	-	-
<b>Total undrawn credit commitments</b>	<b>25,441</b>	<b>25,868</b>	<b>25,335</b>

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 nine months ended 30 June 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 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 13 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 nine months ended 30 June 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 nine months ended 30 June 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 13 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	
<b>Nine months ended 30 June 2017 (Unaudited)</b>					
Net interest income	784	527	1	(5)	1,307
Non-interest income	168	224	98	(1)	489
<b>Net operating income</b>	<b>952</b>	<b>751</b>	<b>99</b>	<b>(6)</b>	<b>1,796</b>
Net operating income from external customers	1,305	994	102	(605)	1,796
Net internal interest expense	(353)	(243)	(3)	599	-
<b>Net operating income</b>	<b>952</b>	<b>751</b>	<b>99</b>	<b>(6)</b>	<b>1,796</b>
Operating expenses	(537)	(187)	(21)	(14)	(759)
Impairment (charges)/benefits	(27)	76	-	-	49
<b>Profit before income tax expense</b>	<b>388</b>	<b>640</b>	<b>78</b>	<b>(20)</b>	<b>1,086</b>
<b>Total gross loans</b>	<b>44,401</b>	<b>33,447</b>	<b>-</b>	<b>29</b>	<b>77,877</b>
<b>Total deposits</b>	<b>33,876</b>	<b>23,765</b>	<b>-</b>	<b>769</b>	<b>58,410</b>
<b>Nine months ended 30 June 2016 (Unaudited)</b>					
Net interest income/(expense)	768	549	(3)	14	1,328
Non-interest income	146	175	96	8	425
<b>Net operating income</b>	<b>914</b>	<b>724</b>	<b>93</b>	<b>22</b>	<b>1,753</b>
Net operating income from external customers	1,277	1,004	97	(625)	1,753
Net internal interest expense	(363)	(280)	(4)	647	-
<b>Net operating income</b>	<b>914</b>	<b>724</b>	<b>93</b>	<b>22</b>	<b>1,753</b>
Operating expenses	(509)	(184)	(19)	(4)	(716)
Impairment (charges)/benefits	(25)	13	-	-	(12)
<b>Profit before income tax expense</b>	<b>380</b>	<b>553</b>	<b>74</b>	<b>18</b>	<b>1,025</b>
<b>Total gross loans</b>	<b>42,194</b>	<b>32,402</b>	<b>-</b>	<b>30</b>	<b>74,626</b>
<b>Total deposits</b>	<b>32,604</b>	<b>23,257</b>	<b>-</b>	<b>1,463</b>	<b>57,324</b>
<b>Year ended 30 September 2016 (Unaudited)</b>					
Net interest income/(expense)	1,032	736	(4)	10	1,774
Non-interest income	195	246	128	19	588
<b>Net operating income</b>	<b>1,227</b>	<b>982</b>	<b>124</b>	<b>29</b>	<b>2,362</b>
Net operating income from external customers	1,718	1,345	129	(830)	2,362
Net internal interest expense	(491)	(363)	(5)	859	-
<b>Net operating income</b>	<b>1,227</b>	<b>982</b>	<b>124</b>	<b>29</b>	<b>2,362</b>
Operating expenses	(672)	(247)	(26)	(8)	(953)
Impairment charges	(32)	(29)	-	(12)	(73)
<b>Profit before income tax expense</b>	<b>523</b>	<b>706</b>	<b>98</b>	<b>9</b>	<b>1,336</b>
<b>Total gross loans</b>	<b>42,695</b>	<b>33,288</b>	<b>-</b>	<b>34</b>	<b>76,017</b>
<b>Total deposits</b>	<b>32,830</b>	<b>24,711</b>	<b>-</b>	<b>1,250</b>	<b>58,791</b>

## 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:

\$ millions	30-Jun-17 Unaudited
Total assets of life insurance business	212
As a percentage of total consolidated assets of the NZ Banking Group	0.23%

# Notes to the financial statements

## Note 15 Risk management

### 15.1 Credit risk

#### The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 June 2017 (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.

For loans approved but not yet drawn in reporting periods prior to and including 31 December 2016, exposures were not separately recorded and are therefore not available for disclosure. As at 30 June 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 30-Jun-17			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	42,513	2,388	1,675	46,576
Undrawn commitments and other off-balance sheet exposures	9,102	225	298	9,625
<b>Value of exposures</b>	<b>51,615</b>	<b>2,613</b>	<b>1,973</b>	<b>56,201</b>

### 15.2 Market risk

#### Market risk notional capital charges (Unaudited)

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date.

\$ millions	NZ Banking Group 30-Jun-17	
	Implied Risk-weighted Exposure	Notional Capital Charge
<b>End-of-period</b>		
Interest rate risk	2,879	230
Foreign currency risk	65	5
Equity risk	-	-

### 15.3 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 30-Jun-17
Cash and balances with central banks	1,528
Due from other financial institutions	159
Supranational securities	1,554
NZ Government securities	1,716
NZ public securities	1,468
NZ corporate securities	2,173
Residential mortgage-backed securities	3,950
<b>Total liquid assets</b>	<b>12,548</b>

## Note 16 Concentration of credit exposures to individual counterparties

### Unaudited

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 30 June 2017 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 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 30 June 2017 was nil; and

**Note 16 Concentration of credit exposures to individual counterparties (continued)**

- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 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 30 June 2017.

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 17 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.

%	30-Jun-17 Unaudited	30-Jun-16 Unaudited
<b>Overseas Banking Group (excluding entities specifically excluded by APRA regulations) <sup>1,2</sup></b>		
Common Equity Tier 1 capital ratio	10.0	10.1
Additional Tier 1 capital ratio	1.7	1.8
Tier 1 capital ratio	11.7	11.9
Tier 2 capital ratio	2.3	2.1
Total regulatory capital ratio	14.0	14.0
<b>Overseas Bank (Extended Licensed Entity) <sup>1,3</sup></b>		
Common Equity Tier 1 capital ratio	9.9	10.3
Additional Tier 1 capital ratio	1.8	2.0
Tier 1 capital ratio	11.7	12.3
Tier 2 capital ratio	2.6	2.4
Total regulatory capital ratio	14.3	14.7

<sup>1</sup> 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](http://www.westpac.com.au)).

<sup>2</sup> 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.

<sup>3</sup> 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](http://www.westpac.com.au)). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny 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 30 June 2017.

# Notes to the financial statements

## Note 18 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.

<b>Profitability</b>	<b>31-Mar-17 Unaudited</b>
Net profit after tax for the six months ended 31 March 2017 (A\$ millions)	<b>3,912</b>
Net profit after tax (for the 12 month period to 31 March 2017) as a percentage of average total assets	<b>0.9%</b>

<b>Total assets and equity</b>	<b>31-Mar-17 Unaudited</b>
Total assets (A\$ millions)	<b>839,993</b>
Percentage change in total assets over the 12 months ended 31 March 2017	<b>1.0%</b>
Total equity (A\$ millions)	<b>59,372</b>

<b>Asset quality</b>	<b>31-Mar-17 Unaudited</b>
Total individually impaired assets <sup>1,2</sup> (A\$ millions)	<b>1,978</b>
Total individually impaired assets as a percentage of total assets	<b>0.2%</b>
Total individual credit impairment allowance <sup>3</sup> (A\$ millions)	<b>1,030</b>
Total individual credit impairment allowance as a percentage of total individually impaired assets	<b>52.1%</b>
Total collective credit impairment allowance <sup>3</sup> (A\$ millions)	<b>2,726</b>

<sup>1</sup> 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.

<sup>2</sup> Non-financial assets have not been acquired through the enforcement of security.

<sup>3</sup> 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.

## Note 19 Events after the reporting date

On 22 August 2017, the Board of Westpac New Zealand Group Limited resolved that a fully imputed dividend of \$280 million be paid to Westpac Overseas Holdings No. 2 Pty Limited.

