
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

	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP				
	Head Office Account			Reserves			
	Branch Capital	Retained Profits	Share Capital	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Equity
\$ millions							
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

NZ BANKING GROUP			
\$ millions	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)

NZ BANKING GROUP			
\$ millions	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

	NZ BANKING GROUP		
\$ millions	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

	NZ BANKING GROUP		
\$ millions	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

	NZ BANKING GROUP		
\$ millions	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 3 ¹	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 3 ¹	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:

NZ BANKING GROUP						
	31 Mar 18 (Unaudited)		31 Mar 17 (Unaudited)		30 Sep 17 (Unaudited)	
\$ millions	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

NZ BANKING GROUP			
	31 Mar 18 Unaudited	31 Mar 17 Unaudited	30 Sep 17 Audited
\$ millions			
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.

	NZ BANKING GROUP				
\$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
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, reading 'Priscilla Hulse Coopers'.

Chartered Accountant

29 May 2018

Auckland

