Westpac New Zealand Limited

Disclosure Statement

For the six months ended 31 March 2019

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Contents

Glossary of terms

Certain information contained in this Disclosure Statement is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (**'Order'**).

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the **'Bank'**);
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the **'Banking Group'**);
- Westpac Banking Corporation (otherwise referred to as the **'Ultimate Parent Bank'**); and
- Ultimate Parent Bank and its controlled entities (otherwise referred to as the **'Ultimate Parent Bank Group'**).

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.

Westpac New Zealand sustainability performance

Our purpose is to help our customers financially, to grow a better New Zealand

We are committed to creating shared value – for our customers, our shareholders, our people and our communities. We do this through our core business, which is focused on helping our customers grow their financial wellbeing, and more widely by using our financial and economic expertise to generate positive economic, social and environmental outcomes for our customers and New Zealand.

Our 2020 sustainability strategy focuses on:

- Growing New Zealanders' financial wellbeing
- Taking action on climate change
- Being a responsible business.

Grow New Zealanders' financial wellbeing

Increased economic participation and inclusive prosperity is beneficial to all. We want all New Zealanders to be financially secure and independent, enabling them to reach their full potential. We are aiming to 1. Grow the financial capability of our communities and our people by integrating financial capability into everyday banking, and 2. Grow financial independence by helping New Zealanders participate in the economy and grow their incomes.

	2020 targets	Progress
1.	20,000 financial education workshop participants	10,043 participants
2.	Introduce a new product or service to tackle financial exclusion and poverty	Nil[1]
3.	Provide $300m in lending to social and affordable housing	$202m

[1] New target

In addition to the above results, key highlights in the six months to 31 March 2019 include:

- Supporting the Middlemore Foundation's three-year Mana-ā-Riki pilot programme, which takes an integrated approach to reducing inequality and improving health and educational outcomes in South Auckland.
- Entering an agreement to support Dunedin-based microfinance provider, The Moray Foundation, to expand its services of small no interest loans to help people who can't access credit from mainstream banking.
- Our CashNav app continues to help over 85,000 customers track, categorise and benchmark their spending.

Take action on climate change

We want to lead New Zealand's transition to a resilient, low-emissions economy that continues to grow to the benefit of future generations.

	2020 targets	Progress
1.	Reduce our operational emissions by 25% (2016 baseline)	14% (FY18)
2.	Convert 30% of our car fleet to electric vehicles or PHeV[1]	24%
3.	Provide $2 billion in lending to climate change solutions	$1.5b

[1] Plug in Hybrid electric Vehicles

We recognise climate change is a major threat to our environment, economy and wellbeing. However, it also presents opportunities for new products and services, technologies and jobs. We believe business has a major role to play. Our strategy is to actively address climate change with urgency, reducing and disclosing our own emissions and exposures and helping our customers manage the transition to a low carbon economy. We also want to ensure capital flows to the parts of the economy where it is needed to facilitate that transition.

In addition to the above results, key highlights in the six months to 31 March 2019 include:

- As one of the founding members of the Climate Leaders Coalition, we are one of 77 New Zealand companies committed to measuring and reporting our own greenhouse gas emissions, and working with suppliers to reduce emissions.
- In late 2018, we supported the launch of the Aotearoa Circle, a public-private initiative to halt and reverse the decline of New Zealand's natural capital. We co-chair the Sustainable Finance Forum stream of the Circle.
- Launching a carbon calculator for farmers, with Meridian Energy, developed by Lincoln University's Agribusiness and Economics Research Unit (AERU) and Agrilink NZ.

Be a responsible business

We want to act responsibly throughout our business, to enhance New Zealand's wellbeing through everything we do.

	2020 targets	Progress
1.	Raise $3 million for Westpac Rescue Choppers	$1.7m
2.	50% Women in Leadership	51.3%
3.	Introduce a Supply Chain Responsible Sourcing Assessment in 100% of Supplier Risk Assessments	81%

In addition to the above results, key highlights in the six months to 31 March 2019 include:

- Becoming the first New Zealand bank to become an accredited Living Wage Employer.
- Sole platinum sponsor of Rainbow Excellence Awards, reflecting our commitment to our LGBTI+ community.

For more information on our approach to sustainability please visit www.westpacsustainability.co.nz

To read the Westpac Climate Change Impact report, visit: https://www.westpac.co.nz/climateimpactreport

Directors' statement

Each Director of the Bank believes, 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 Bank believes, after due enquiry, that over the six months ended 31 March 2019:

(a) the Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 **('Reserve Bank Act')** except as noted on page 54;

(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Janice Dawson

David McLean

Malcolm Bailey

Philippa Greenwood

Peter King

Jonathan Mason

Christopher Moller

Mary Quin

Dated this 23rd day of May 2019

Income statement for the six months ended 31 March 2019

		THE BANKING GROUP	
$ millions	Note	**Six Months[1,2] Ended 31 Mar 19 Unaudited**	Six Months[2] Ended 31 Mar 18 Unaudited
Interest income	2	**2,043**	1,971
Interest expense	2	**(1,060)**	(1,066)
Net interest income		**983**	905
Net fees and commissions income	3	**143**	171
Other income	3	**45**	10
Net operating income before operating expenses and impairment charges		**1,171**	1,086
Operating expenses		**(468)**	(446)
Impairment (charges)/benefits	4	**(14)**	(27)
Profit before income tax		**689**	613
Income tax expense		**(180)**	(171)
Net profit attributable to the owners of the Banking Group		**509**	442

[1] The income statement for 31 March 2019 reflects the adoption of NZ IFRS 9 *Financial Instruments* (**'NZ IFRS 9'**) and NZ IFRS 15 *Revenue from Contracts with Customers* (**'NZ IFRS 15'**). Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current period, the Banking Group has disaggregated the non-interest income line on the income statement into two separate lines for net fees and commissions income and other income. The Banking Group has also reclassified credit card loyalty program expense from operating expenses to net fees and commissions income. Comparatives have been restated. Refer to Note 1 for further information.

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

Statement of comprehensive income for the six months ended 31 March 2019

	THE BANKING GROUP	
$ millions	**Six Months[1] Ended 31 Mar 19 Unaudited**	Six Months Ended 31 Mar 18 Unaudited
Net profit attributable to the owners of the Banking Group	**509**	442
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) recognised in equity on:		
Available-for-sale securities	**-**	2
Investment securities	**(6)**	-
Cash flow hedging instruments	**(82)**	(10)
Transferred to income statement:		
Cash flow hedging instruments	**21**	29
Income tax on items taken to or transferred from equity:		
Available-for-sale securities reserve	**-**	(1)
Investment securities reserve	**2**	-
Cash flow hedge reserve	**17**	(5)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit obligation (net of tax)	**(8)**	(2)
Other comprehensive income for the period (net of tax)	**(56)**	13
Total comprehensive income attributable to the owners of the Banking Group	**453**	455

[1] The statement of comprehensive income for 31 March 2019 reflects the adoption of NZ IFRS 9 and NZ IFRS 15. Comparatives have not been restated. Refer to Note 1 for further information.

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

Balance sheet as at 31 March 2019

$ millions	Note	THE BANKING GROUP 31 Mar 19[1,2] Unaudited	30 Sep 18[2] Audited
Assets			
Cash and balances with central banks		**2,160**	1,353
Collateral paid		**294**	70
Trading securities		**1,265**	1,151
Derivative financial instruments		**288**	585
Available-for-sale securities		**-**	3,810
Investment securities		**3,992**	-
Loans	5	**82,058**	80,378
Other financial assets		**622**	225
Due from related entities		**1,326**	1,319
Property and equipment		**135**	144
Deferred tax assets		**184**	156
Intangible assets		**621**	629
Other assets		**59**	51
Total assets		**93,004**	89,871
Liabilities			
Collateral received		**215**	476
Deposits and other borrowings	7	**65,114**	63,102
Other financial liabilities		**443**	560
Derivative financial instruments		**345**	181
Debt issues	8	**14,976**	13,725
Current tax liabilities		**29**	96
Provisions		**101**	106
Other liabilities		**95**	82
Total liabilities excluding related entities liabilities		**81,318**	78,328
Due to related entities		**1,795**	1,643
Loan capital		**2,574**	2,622
Total related entities liabilities		**4,369**	4,265
Total liabilities		**85,687**	82,593
Net assets		**7,317**	7,278
Shareholder's equity			
Share capital		**6,600**	5,100
Reserves		**(99)**	(51)
Retained profits		**816**	2,229
Total shareholder's equity		**7,317**	7,278

[1] The balance sheet for 31 March 2019 reflects the adoption of NZ IFRS 9 and NZ IFRS 15. Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current year, balances from receivables due from other financial institutions and payables due to other financial institutions have been reclassified to line items of a similar nature on the balance sheet and to collateral paid and collateral received where relevant. Amounts in other assets and other liabilities have been reclassified to other financial assets and other financial liabilities where relevant. Comparatives have been restated. Refer to Note 1 for further information.

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 2019

$ millions	Share Capital	Reserves: Available-for-sale Securities Reserve	Reserves: Investment Securities Reserve	Reserves: Cash Flow Hedge Reserve	Retained Profits	Total
			THE BANKING GROUP			
As at 1 October 2017 (Audited)	3,750	9	-	(74)	3,165	6,850
Six months ended 31 March 2018 (Unaudited)						
Net profit attributable to the owners of the Banking Group	-	-	-	-	442	442
Net gains/(losses) from changes in fair value	-	2	-	(10)	-	(8)
Income tax effect	-	(1)	-	3	-	2
Transferred to income statement	-	-	-	29	-	29
Income tax effect	-	-	-	(8)	-	(8)
Remeasurement of defined benefit obligations	-	-	-	-	(3)	(3)
Income tax effect	-	-	-	-	1	1
Total comprehensive income for the six months ended 31 March 2018	-	1	-	14	440	455
Transactions with owners:						
Ordinary share capital issued	1,350	-	-	-	-	1,350
Dividends paid on ordinary shares	-	-	-	-	(1,350)	(1,350)
As at 31 March 2018 (Unaudited)	5,100	10	-	(60)	2,255	7,305
As at 30 September 2018 (Audited)	5,100	9	-	(60)	2,229	7,278
Impact on adoption of new accounting standards[1]	-	(9)	9	-	(24)	(24)
As at 1 October 2018 (Unaudited)	5,100	-	9	(60)	2,205	7,254
Six months ended 31 March 2019 (Unaudited)						
Net profit attributable to the owners of the Banking Group	-	-	-	-	509	509
Net gains/(losses) from changes in fair value	-	-	(6)	(82)	-	(88)
Income tax effect	-	-	2	23	-	25
Transferred to income statement	-	-	-	21	-	21
Income tax effect	-	-	-	(6)	-	(6)
Remeasurement of defined benefit obligations	-	-	-	-	(11)	(11)
Income tax effect	-	-	-	-	3	3
Total comprehensive income for the six months ended 31 March 2019	-	-	(4)	(44)	501	453
Transactions with owners:						
Ordinary share capital issued (refer to Note 9)	1,500	-	-	-	-	1,500
Dividends paid on ordinary shares (refer to Note 9)	-	-	-	-	(1,890)	(1,890)
As at 31 March 2019 (Unaudited)	6,600	-	5	(104)	816	7,317

[1] The statement of changes in equity for 31 March 2019 reflects the adoption of NZ IFRS 9 and NZ IFRS 15. Refer to Note 1 for further information.

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 2019

$ millions	THE BANKING GROUP Six Months[1,2] Ended 31 Mar 19 Unaudited	Six Months[2] Ended 31 Mar 18 Unaudited
Cash flows from operating activities		
Interest received	**2,039**	1,965
Interest paid	**(1,096)**	(1,118)
Non-interest income received	**166**	167
Operating expenses paid	**(439)**	(429)
Income tax paid	**(243)**	(217)
Cash flows from operating activities before changes in operating assets and liabilities	**427**	368
Net (increase)/decrease in:		
Collateral paid	**(224)**	230
Trading securities	**(114)**	(29)
Loans	**(1,692)**	(1,891)
Other financial assets	**(8)**	(24)
Due from related entities	**(74)**	391
Other assets	**(3)**	(3)
Net increase/(decrease) in:		
Collateral received	**(261)**	158
Deposits and other borrowings	**2,012**	3,185
Other financial liabilities	**(97)**	13
Due to related entities	**73**	109
Other liabilities	**4**	(9)
Net movement in external and related entity derivative financial instruments	**5**	(69)
Net cash provided by/(used in) operating activities	**48**	2,429
Cash flows from investing activities		
Proceeds from available-for-sale securities	**-**	499
Purchase of investment securities	**(1,535)**	-
Proceeds from investment securities	**1,363**	-
Proceeds from disposal of associates	**48**	-
Purchase of capitalised computer software	**(21)**	(30)
Purchase of property and equipment	**(15)**	(16)
Proceeds from disposal of property and equipment	**3**	-
Net cash provided by/(used in) investing activities	**(157)**	453
Cash flows from financing activities		
Issue of ordinary share capital	**1,500**	1,350
Net movement in due to related entities	**(25)**	(158)
Proceeds from debt issues	**1,721**	550
Repayments of debt issues	**-**	(2,615)
Dividends paid to ordinary shareholders	**(1,890)**	(1,350)
Net cash provided by/(used in) financing activities	**1,306**	(2,223)
Net increase/(decrease) in cash and cash equivalents	**1,197**	659
Cash and cash equivalents at beginning of the period	**1,353**	1,659
Cash and cash equivalents at end of the period	**2,550**	2,318
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**210**	224
Balances with central banks	**1,950**	1,750
Interbank lending classified as cash and cash equivalents[3]	**390**	344
Cash and cash equivalents at end of the period	**2,550**	2,318

[1] The statement of cash flows for 31 March 2019 reflects the adoption of NZ IFRS 9 and NZ IFRS 15. Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current year, balances from receivables due from other financial institutions and payables due to other financial institutions have been reclassified to line items of a similar nature on the balance sheet and to collateral paid and collateral received where relevant. Amounts in other assets and other liabilities have been reclassified to other financial assets and other financial liabilities where relevant. Comparatives have been restated. Refer to Note 1 for further information.

[3] Interbank lending is included within other financial assets on the balance sheet.

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, 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 2018. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (**'IASB'**).

1. Financial statements preparation

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

All amounts in these financial statements have been rounded to the nearest million dollars unless otherwise stated.

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.

All policies have been applied on a basis consistent with that used in the financial year ended 30 September 2018, except as set out below.

The areas of judgment, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the Disclosure Statement for the year ended 30 September 2018, with the exception of those relevant to the Banking Group due to the adoption of NZ IFRS 9 *Financial instruments (September 2014)* (**'NZ IFRS 9'**). These include the concept of a significant increase in credit risk and the use of forward looking information as described in the "Amendments to Accounting Standards effective this period – NZ IFRS 9 *Financial Instruments (September 2014)* (NZ IFRS 9)" section.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

2. Voluntary presentation changes

Balance sheet

The following voluntary presentation changes to the balance sheet (and related notes) have been made to improve consistency and provide more relevant information to the users of the financial statements by reporting balances of a similar nature together in the same place in the balance sheet. These changes have no effect on the measurement of these items and therefore had no impact on retained earnings or net profit.

These changes are:

- the addition of new balance sheet lines for 'collateral paid', 'other financial assets', 'collateral received' and 'other financial liabilities';
- removal of the balance sheet line 'receivables due from other financial institutions' and reclassification to 'collateral paid' and 'other financial assets';
- removal of the balance sheet line 'payables due to other financial institutions' and reclassification to 'collateral received' and 'other financial liabilities'; and
- reclassification of financial assets or financial liabilities included in other assets or other liabilities respectively to other financial assets and other financial liabilities respectively.

Collateral paid/collateral received includes cash provided to/received from counterparties as collateral over financial liabilities/assets arising from derivative contracts.

Comparatives have been restated for these voluntary presentation changes and are detailed as follows:

	THE BANKING GROUP		
	30 Sep 18		
$ millions	Reported	Presentation changes	Restated
Assets			
Receivables due from other financial institutions	**70**	**(70)**	**-**
Collateral paid	**-**	**70**	**70**
Other financial assets	**-**	**225**	**225**
Other assets	**276**	**(225)**	**51**
All other assets	**89,525**	**-**	**89,525**
Total assets	**89,871**	**-**	**89,871**
Liabilities			
Payables due to other financial institutions	**497**	**(497)**	**-**
Collateral received	**-**	**476**	**476**
Other financial liabilities	**-**	**560**	**560**
Other liabilities	**621**	**(539)**	**82**
All other liabilities	**81,475**	**-**	**81,475**
Total liabilities	**82,593**	**-**	**82,593**

Income statement

The following voluntary presentation changes to the income statement (and related notes) have been made to provide more relevant information to the users of the financial statements. These changes have no effect on the measurement of these items and therefore had no impact on retained earnings or net profit.

a. Net interest income

- the components of interest income and interest expense relating to the balance sheet reclassifications have been restated accordingly. Note that there was no net impact to total interest income, total interest expense or to total net interest income. Comparatives have been restated for these voluntary presentation changes. The details are provided in Note 2.
- in addition, to comply with disclosure requirements, interest income derived from financial assets measured at amortised cost and at FVOCI has been presented separately from other interest income. For consistency, interest expense is presented in the same way. The details are provided in Note 2.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

b. Non-interest income and operating expenses

- disaggregating the non-interest income line on the income statement into two separate lines for net fees and commissions income and other income.
- separating net fees and commissions income in the non-interest income note into fees and commissions income and fees and commissions expenses.
- reclassifying credit card loyalty program expense from operating expenses to the new fees and commissions expenses category in the non-interest income note.

Fees and commissions expenses include those expenses that are incremental external costs that vary directly with the provision of goods or services to customers (excluding expenses which would qualify as transaction costs relating to the issue, acquisition or disposal of a financial asset or a financial liability which are deferred and included in the effective interest rate and recognised in net interest income).

An incremental cost is one that would not have been incurred if a specific good or service had not been provided to a specific customer.

Comparatives have been restated for these voluntary presentation changes and are detailed in the following table.

	THE BANKING GROUP		
	Six months ended 31 Mar 18		
$ millions	Reported	Presentation changes	Restated
Income statement			
Net interest income	905	-	905
Non-interest income	195	(195)	-
Net fees and commissions income	-	171	171
Other income	-	10	10
Net operating income before operating expenses and impairment charges	1,100	(14)	1,086
Operating expenses	(460)	14	(446)
Impairment (charges)/benefits	(27)	-	(27)
Profit before income tax	613	-	613
Income tax expense	(171)	-	(171)
Net profit attributable to the owners of the Banking Group	442	-	442
Note 3: Non-interest income (extract)			
Net fees and commissions income			
Facility fees	30	-	30
Transaction fees and commissions	133	12	145
Other non-risk fee income	22	-	22
Fees and commissions income	185	12	197
Credit card loyalty programs	-	(14)	(14)
Transaction fee related expenses	-	(12)	(12)
Fees and commissions expenses	-	(26)	(26)
Net fees and commissions income	185	(14)	171

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

3. Amendments to Accounting Standards effective this period

NZ IFRS 9 Financial Instruments (September 2014) (NZ IFRS 9)

The Banking Group adopted NZ IFRS 9 on 1 October 2018. The adoption of NZ IFRS 9 has been applied by adjusting the opening balance sheet at 1 October 2018, with no restatement of comparatives as permitted by the standard. The adoption of NZ IFRS 9 reduced retained earnings at 1 October 2018 by $27 million (net of tax), primarily due to the increase in impairment provisions under the new standard.

The key changes in accounting policies and the impact of transition are outlined as follows.

a. Impairment

NZ IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses (**'ECL'**) based on unbiased forward looking information, replacing the incurred loss model under NZ IAS 39 *Financial instruments: Recognition and Measurement* (**'NZ IAS 39'**) which only recognised impairment if there was objective evidence that a loss had been incurred. The revised impairment model applies to all financial assets at amortised cost, investment securities, and credit commitments.

Measurement

The Banking Group calculates the provisions for ECL based on a three stage approach. ECL are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The models use three main components to determine the ECL (as well as the time value of money) including:

– Probability of default (**'PD'**): the probability that a counterparty will default;

– Loss given default (**'LGD'**): the loss that is expected to arise in the event of a default; and

– Exposure at default (**'EAD'**): the estimated outstanding amount of credit exposure at the time of the default.

i. Model stages

The three stages are as follows:

- *Stage 1: 12 months ECL - performing*

  For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months ECL is recognised. Interest revenue is calculated based on the gross carrying amount of the financial asset.

- *Stage 2: Lifetime ECL – performing*

  For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing, a provision for lifetime ECL is recognised.

  Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is primarily based on changes in internal customer risk grades since origination of the facility. A change in an internal customer risk grade is based on both quantitative and qualitative factors. The number of changes in the internal customer risk grade that the Banking Group uses to represent a significant increase in credit risk is determined on a sliding scale where the number of changes will typically be higher for an exposure with a lower credit risk grade compared to an exposure with a higher credit risk grade.

  The Banking Group does not rebut the presumption that instruments that are 30 days past due have experienced a significant increase in credit risk but this is used as a backstop rather than the primary indicator.

  The Banking Group does not apply the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

  Interest revenue is calculated based on the gross carrying amount of the financial asset.

- *Stage 3: Lifetime ECL – non-performing*

  For financial assets that are non-performing, a provision for lifetime ECL is recognised. Indicators include a breach of contract with the Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

  Interest revenue is calculated based on the carrying amount net of the provision for ECL rather than the gross carrying amount.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

ii. Collective and individual assessment

Financial assets that are in stages 1 and 2 are assessed on a collective basis as are financial assets in stage 3 below specified thresholds. Those financial assets in stage 3 above the specified thresholds are assessed on an individual basis.

iii. Expected life

Expected credit losses are determined as a lifetime expected credit loss in stages 2 and 3.

In considering the lifetime timeframe, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component (e.g. credit cards and revolving lines of credit), the Banking Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit our exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

iv. Movement between stages

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, assets in stage 3 may move back to stage 2 if they are no longer assessed to be non-performing.

v. Forward looking information

The measurement of ECL for each stage and the assessment of significant increase in credit risk consider information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward looking information is a critical accounting judgement. The Banking Group considers three future macroeconomic scenarios including a base case scenario along with upside and downside scenarios.

The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) unemployment rates, real gross domestic product growth rates and residential and commercial property price indices.

- *Base case scenario*

  This scenario utilises the internal Westpac economics forecast used for strategic decision making and forecasting. This assumes low GDP growth, declines in residential property price indices and the cash rate.

- *Upside scenario*

  This scenario represents a modest improvement on the base case scenario.

- *Downside scenario*

  This scenario is used in the Banking Group's stress testing and represents a moderate recession. In this scenario, the economy weakens with declines in GDP growth, commercial property prices and more significant declines in residential property prices. It also assumes an increase in the unemployment rate. In a deteriorating economy there may be times when a more severe downside scenario is required which will be monitored as part of the governance framework.

The macroeconomic scenarios are weighted based on the Banking Group's best estimate of the relative likelihood of each scenario. The weighting applied to each of the three forward looking macroeconomic scenario takes into account historical frequency, current trends, and forward looking conditions. The macroeconomic variables and probability weightings of the three scenarios are subject to the approval of the Banking Group's Chief Financial Officer and Chief Risk Officer with oversight from the Board of Directors (and its Committees). Where appropriate, adjustments are made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Recognition

The ECL determined under NZ IFRS 9 are recognised as follows:

- Loans at amortised cost: as a reduction of the carrying value of the financial asset through an offsetting provision account (refer to Notes 5 and 6);
- Investment securities: in reserves in other comprehensive income with no reduction of the carrying value of the debt security itself (refer to the statement of changes in equity); and
- Credit commitments: as a provision.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

b. Classification and measurement

NZ IFRS 9 replaced the classification and measurement model in NZ IAS 39 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument represent solely payments of principal and interest (**'SPPI'**).

The Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Banking Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for, sales in previous periods, and expectations of sales in future periods.

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

Financial assets

i. Debt instruments

If the debt instruments have contractual cash flows that represent SPPI on the principal balance outstanding they are classified at:

– amortised cost if they are held with a business model which is achieved through holding the financial asset to collect these cash flows; or

– FVOCI if they are held with a business model which is achieved both through collecting these cash flows or selling the financial asset; or

– FVIS if they are held with a business model which is achieved through selling the financial asset.

Debt instruments are also measured at FVIS where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVIS to eliminate or reduce an accounting mismatch.

Debt instruments at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. They are presented net of provisions for ECL determined using the ECL model described above.

Debt instruments at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses which are recognised in the income statement.

Impairment on debt instruments at FVOCI is determined using the ECL model described above and is recognised in the income statement with a corresponding amount in other comprehensive income. There is no reduction of the carrying value of the debt security which remains at fair value.

The cumulative gain or loss recognised in other comprehensive income is subsequently recognised in the income statement when the instrument is disposed.

Debt instruments at FVIS are measured at fair value with subsequent changes in fair value recognised in the income statement.

ii. Equity securities

Equity securities are measured at FVOCI where they:

– are not held for trading; and

– an irrevocable election is made by the Banking Group.

Otherwise, they are measured at FVIS.

Equity securities at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for dividend income which is recognised in the income statement. The cumulative gain or loss recognised in other comprehensive income is not subsequently recognised in the income statement when the instrument is disposed.

Equity securities at FVIS are measured at fair value with subsequent changes in fair value recognised in the income statement.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

Financial liabilities

Financial liabilities are measured at amortised cost if they are not held for trading or designated at FVIS otherwise they are measured at FVIS. This remains unchanged from NZ IAS 39.

In the 2014 financial year, the Banking Group early adopted part of NZ IFRS 9 which relates to the recognition of the changes in fair value of financial liabilities designated at fair value attributable to the Banking Group's own credit risk in other comprehensive income (except where it would create an accounting mismatch, in which case all changes in fair value are recognised in the income statement). As a result, the accounting for this remains unchanged for the Banking Group.

c. Hedging

NZ IFRS 9 changes hedge accounting by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. Adoption of the new hedge accounting model is optional until the IASB completes its accounting for dynamic risk management project. Until this time, current hedge accounting under NZ IAS 39 can continue to be applied. The Banking Group has applied the option to continue hedge accounting under NZ IAS 39, however the Banking Group has adopted the amended NZ IFRS 7 *Financial Instruments: Disclosures* hedge accounting disclosures as required.

NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

The Banking Group adopted NZ IFRS 15 on 1 October 2018. It replaced NZ IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, except leases, financial instruments and insurance contracts. The standard provides a systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. This includes:

- identifying the contract with customer;
- identifying each of the performance obligations included in the contract;
- determining the amount of consideration in the contract;
- allocating the consideration to each of the identified performance obligations; and
- recognising revenue as each performance obligation is satisfied.

The Banking Group has applied NZ IFRS 15 by increasing the opening balance of retained earnings at the date of initial application, 1 October 2018, by $3 million (net of tax) with no comparatives restatement.

In addition, the Banking Group identified certain income and expenses which were previously reported on a net basis primarily within fees and commission income which are now being presented on a gross basis.

Finally, certain facility fees have been reclassified from non-interest income to interest income.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

Transition (NZ IFRS 9 and NZ IFRS 15)

a. Impact of the adoption of NZ IFRS 9 – impairment

The following table shows the impact of the adoption of NZ IFRS 9 on impairment balances.

$ millions	Provision on loans	Provision for credit commitments	Loss allowance on investment securities	Provision on all other financial assets at amortised cost	Total
30 September 2018 - carrying amount	**324**	**34**	**-**	**-**	**358**
Increase in provision for impairment	**19**	**18**	**-**	**-**	**37**
1 October 2018 - NZ IFRS 9 carrying amount	**343**	**52**	**-**	**-**	**395**

b. Impact of the adoption of NZ IFRS 9 - classification and measurement

Available-for-sale securities / Investment securities

The balance sheet line item previously named Available-for-sale securities has been renamed to Investment securities. Investment securities consist of debt securities at FVOCI as they have contractual cash flows that represent SPPI and are held with a business model which is achieved both through collecting these cash flows or selling the instruments.

Basis of measurement

There has been no change in the basis of measurement of financial assets and financial liabilities under NZ IFRS 9 as presented in the following table.

	THE BANKING GROUP								
	30 Sep 2018					1 Oct 2018			
	NZ IAS 39 measurement basis				Change in measurement basis under NZ IFRS 9	NZ IFRS 9 measurement basis			
$ millions	Amortised cost	FVIS	FVOCI	Total		Amortised cost	FVIS	FVOCI	Total
Financial assets									
Cash and balances with central banks	**1,353**	**-**	**-**	**1,353**	**No**	**1,353**	**-**	**-**	**1,353**
Collateral paid	**70**	**-**	**-**	**70**	**No**	**70**	**-**	**-**	**70**
Trading securities	**-**	**1,151**	**-**	**1,151**	**No**	**-**	**1,151**	**-**	**1,151**
Derivative financial instruments	**-**	**585**	**-**	**585**	**No**	**-**	**585**	**-**	**585**
Available-for-sale/Investment securities	**-**	**-**	**3,810**	**3,810**	**No**	**-**	**-**	**3,810**	**3,810**
Loans	**80,378**	**-**	**-**	**80,378**	**No**	**80,378**	**-**	**-**	**80,378**
Other financial assets	**225**	**-**	**-**	**225**	**No**	**225**	**-**	**-**	**225**
Due from related entities	**761**	**558**	**-**	**1,319**	**No**	**761**	**558**	**-**	**1,319**
Total financial assets	**82,787**	**2,294**	**3,810**	**88,891**		**82,787**	**2,294**	**3,810**	**88,891**
Financial liabilities									
Collateral received	**476**	**-**	**-**	**476**	**No**	**476**	**-**	**-**	**476**
Deposits and other borrowings	**61,884**	**1,218**	**-**	**63,102**	**No**	**61,884**	**1,218**	**-**	**63,102**
Other financial liabilities	**560**	**-**	**-**	**560**	**No**	**560**	**-**	**-**	**560**
Derivative financial instruments	**-**	**181**	**-**	**181**	**No**	**-**	**181**	**-**	**181**
Debt issues	**13,725**	**-**	**-**	**13,725**	**No**	**13,725**	**-**	**-**	**13,725**
Due to related entities	**1,392**	**251**	**-**	**1,643**	**No**	**1,392**	**251**	**-**	**1,643**
Loan capital	**2,622**	**-**	**-**	**2,622**	**No**	**2,622**	**-**	**-**	**2,622**
Total financial liabilities	**80,659**	**1,650**	**-**	**82,309**		**80,659**	**1,650**	**-**	**82,309**

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

c. Reconciliation of the opening balance sheet

The table below reconciles the restated 30 September 2018 balance sheet to the 1 October 2018 opening balance sheet on adoption of NZ IFRS 9 and NZ IFRS 15 showing separately the impact of adjustments relating to reclassification and remeasurement, including the related tax impacts.

	THE BANKING GROUP				
	30 Sep 2018	1 Oct 2018			
		NZ IFRS 9 changes			
$ millions	Restated carrying amount	Reclassification	Remeasurement	NZ IFRS 15 changes	Opening carrying amount
Assets					
Cash and balances with central banks	1,353	-	-	-	1,353
Collateral paid	70	-	-	-	70
Trading securities	1,151	-	-	-	1,151
Derivative financial instruments	585	-	-	-	585
Available-for-sale securities	3,810	(3,810)	-	-	-
Investment securities	-	3,810	-	-	3,810
Loans	80,378	-	(19)	-	80,359
Other financial assets	225	-	-	-	225
Due from related entities	1,319	-	-	-	1,319
Property and equipment	144	-	-	-	144
Deferred tax assets	156	-	10	(1)	165
Intangible assets	629	-	-	-	629
Other assets	51	-	-	-	51
Total assets	89,871	-	(9)	(1)	89,861
Liabilities					
Collateral received	476	-	-	-	476
Deposits and other borrowings	63,102	-	-	-	63,102
Other financial liabilities	560	-	-	(4)	556
Derivative financial instruments	181	-	-	-	181
Debt issues	13,725	-	-	-	13,725
Current tax liabilities	96	-	-	-	96
Provisions	106	-	18	-	124
Other liabilities	82	-	-	-	82
Total liabilities excluding related entities liabilities	78,328	-	18	(4)	78,342
Due to related entities	1,643	-	-	-	1,643
Loan capital	2,622	-	-	-	2,622
Total related entities liabilities	4,265	-	-	-	4,265
Total liabilities	82,593	-	18	(4)	82,607
Net assets	7,278	-	(27)	3	7,254
Shareholder's equity					
Share capital	5,100	-	-	-	5,100
Reserves	(51)	-	-	-	(51)
Retained profits	2,229	-	(27)	3	2,205
Total shareholder's equity	7,278	-	(27)	3	7,254

As permitted by NZ IFRS 9 and NZ IFRS 15, comparatives have not been restated. Comparatives have been restated for voluntary presentation changes as detailed in Section 2 'Voluntary presentation changes' on page 11.

Notes to the financial statements

Note 2 Net interest income

	THE BANKING GROUP	
$ millions	**Six Months[1,2] Ended 31 Mar 19 Unaudited**	Six Months[2] Ended 31 Mar 18 Unaudited
Interest income		
Financial assets measured at amortised cost or FVOCI		
Cash and balances with central banks	**12**	13
Collateral paid	**3**	1
Available-for-sale securities	**-**	73
Investment securities	**78**	-
Loans	**1,933**	1,855
Due from related entities	**2**	5
Total interest income from financial assets measured at amortised cost or FVOCI	**2,028**	1,947
Other		
Trading securities	**14**	22
Due from related entities	**1**	2
Total other	**15**	24
Total interest income	**2,043**	1,971
Interest expense		
Financial liabilities measured at amortised cost		
Collateral received	**3**	2
Deposits and other borrowings	**660**	622
Debt issues	**141**	145
Due to related entities	**20**	21
Loan capital	**71**	71
Other interest expense	**2**	3
Total interest expense from financial liabilities measured at amortised cost	**897**	864
Other		
Deposits and other borrowings	**11**	8
Debt issues	**4**	10
Due to related entities	**1**	-
Other interest expense[3]	**147**	184
Total other	**163**	202
Total interest expense	**1,060**	1,066
Total net interest income	**983**	905

[1] Reflects the adoption of NZ IFRS 9 and NZ IFRS 15. Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current year, balances from receivables due from other financial institutions and payables due to other financial institutions have been reclassified to line items of a similar nature on the balance sheet and to collateral paid and collateral received where relevant. Amounts in other assets and other liabilities have been reclassified to other financial assets and other financial liabilities where relevant. Comparatives have been restated. Refer to Note 1 for further information.

[3] Includes the net impact of treasury's interest rate and liquidity management activities.

Notes to the financial statements

Note 3 Non-interest income

	THE BANKING GROUP	
$ millions	**Six Months[1,2] Ended 31 Mar 19 Unaudited**	Six Months[2] Ended 31 Mar 18 Unaudited
Net fees and commissions income		
Facility fees	**25**	30
Transaction fees and commissions	**136**	145
Other non-risk fee income	**12**	22
Fees and commissions income	**173**	197
Credit card loyalty programs	**(16)**	(14)
Transaction fee related expenses	**(14)**	(12)
Fees and commissions expenses	**(30)**	(26)
Net fees and commissions income	**143**	171
Other income		
Net ineffectiveness on qualifying hedges	**-**	4
Other non-interest income[3]	**45**	6
Total other income	**45**	10
Total non-interest income	**188**	181

[1] Reflects the adoption of NZ IFRS 15. Comparatives have not been restated. Refer to Note 1 for further information.
[2] Comparatives have been restated for presentation changes. Refer to Note 1 for further information.
[3] Westpac NZ Operations Limited sold its 25% shareholding in Paymark Limited to Ingenico Group S.A, resulting in a gain on sale of $40 million for the six months ended 31 March 2019. Refer to Note 9 for details.

Fees and commissions income can be further disaggregated into the following operating segments and is consistent with the segment descriptions detailed in Note 12:

	THE BANKING GROUP				
$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
Six months ended 31 March 2019 (Unaudited)					
Fees and commissions income					
Facility fees	**15**	**7**	**-**	**3**	**25**
Transaction fees and commissions	**79**	**46**	**-**	**11**	**136**
Other non-risk fee income	**5**	**7**	**-**	**-**	**12**
Fees and commissions income	**99**	**60**	**-**	**14**	**173**
Fees and commissions expenses	**(28)**	**-**	**-**	**(2)**	**(30)**
Net fees and commissions income	**71**	**60**	**-**	**12**	**143**
Six months ended 31 March 2018 (Unaudited)					
Fees and commissions income					
Facility fees	19	7	-	4	30
Transaction fees and commissions	80	37	-	28	145
Other non-risk fee income	8	8	-	6	22
Fees and commissions income	107	52	-	38	197
Fees and commissions expenses	(23)	-	-	(3)	(26)
Net fees and commissions income	84	52	-	35	171

Notes to the financial statements

Note 4 Impairment charges/(benefits)

The following table details impairment charges/(benefits) for the six months ended 31 March 2019 based on the requirements of NZ IFRS 9.

	THE BANKING GROUP
$ millions	Six Months Ended 31 Mar 19 Unaudited
Provisions raised/(released):	
Performing	**(8)**
Non-performing	**14**
Bad debts written-off/(recovered) directly to the income statement	**8**
Impairment charges/(benefits)	**14**
of which relates to:	
Loans and credit commitments	**14**
Investment securities	**-**
Impairment charges/(benefits)	**14**

Impairment charges/(benefits) on all other financial assets are not material to the Banking Group.

As comparatives have not been restated for the adoption of NZ IFRS 9, the following table details impairment charges/(benefits) for the six months ended 31 March 2018 based on the requirements of NZ IAS 39. In subsequent reporting periods, as NZ IFRS 9 will have been effective for this disclosure for all periods presented in the Disclosure Statement, this table will no longer be required.

	THE BANKING GROUP
$ millions	Six Months Ended 31 Mar 18 Unaudited
Individually assessed provisions raised	19
Reversal of previously recognised impairment charges	(4)
Collectively assessed provisions raised/(released)	5
Bad debts written-off/(recovered) directly to the income statement	7
Total impairment charges/(benefits)	27

Note 5 Loans

	THE BANKING GROUP	
$ millions	31 Mar 19[1,2] Unaudited	30 Sep 18[2] Audited
Residential mortgages	**49,579**	48,893
Other retail	**3,807**	3,928
Corporate	**28,935**	27,603
Other	**94**	278
Total gross loans	**82,415**	80,702
Provisions for ECL/provisions for impairment charges on loans	**(357)**	(324)
Total net loans	**82,058**	80,378

[1] Reflects the adoption of NZ IFRS 9. Comparatives have not been restated. Refer to Note 1 for further information.

[2] The Banking Group has changed the presentation of loan categories for consistency with the types of credit exposures disclosed in Section iii Asset Quality of the Registered Bank Disclosures. This has no effect on the balance sheet or income statement. Comparatives have been restated.

As at 31 March 2019, $7,535 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 Banking Group to secure the obligations of Westpac Securities NZ Limited (**'WSNZL'**) under the Bank's Global Covered Bond Programme (**'CB Programme'**) (30 September 2018: $7,533 million). These pledged assets were not derecognised from the 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 2018. As at 31 March 2019, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $6,198 million (30 September 2018: $5,656 million).

Notes to the financial statements

Note 6 Provisions for expected credit losses

Loans and credit commitments

The following table reconciles the 31 March 2019 provision for ECL on loans and commitments based on the requirements of NZ IFRS 9.

	THE BANKING GROUP Unaudited					
	Performing		Non-performing	Collectively assessed provisions	Individually assessed provisions	
$ millions	**Stage 1**	**Stage 2**	**Stage 3**			**Total**
Provision for impairment charges as at 30 September 2018	**-**	**-**	**-**	**322**	**36**	**358**
Restatement for adoption of NZ IFRS 9	**103**	**203**	**89**	**(322)**	**(36)**	**37**
Restated provision for ECL as at 1 October 2018	**103**	**203**	**89**	**-**	**-**	**395**
Net transfers in/(out) of stages[1]	**29**	**(33)**	**4**			**-**
Reversals of previously recognised impairment charges	**-**	**-**	**(6)**			**(6)**
New financial assets originated	**7**	**-**	**-**			**7**
Financial assets derecognised during the period	**(6)**	**(20)**	**(7)**			**(33)**
Changes in collective provisions due to amounts written off	**-**	**-**	**(22)**			**(22)**
Other charges/(credits) to the income statement[2]	**(30)**	**45**	**45**			**60**
Total charges/(credits) to the income statement for ECL	**-**	**(8)**	**14**			**6**
Amounts written off from individually assessed provisions	**-**	**-**	**(2)**			**(2)**
Total provision for ECL on loans and credit commitments as at 31 March 2019	**103**	**195**	**101**			**399**
Presented as:						
Provision for ECL on loans (Refer to Note 5)	**84**	**173**	**100**			**357**
Provision for ECL on credit commitments	**19**	**22**	**1**			**42**
Total provision for ECL on loans and credit commitments as at 31 March 2019	**103**	**195**	**101**			**399**

[1] Represents the transfers between stages prior to remeasurement of the provision for ECL. The remeasurement of the provision for ECL due to transfers between stages is included in 'other charges/(credits) to the income statement'.

[2] Includes the impact on remeasurement of the provision for ECL due to changes in credit quality, which can result in transfers between stages. Refer to Note 1 for further detail on model stages. Other impacts include net further lending/repayment, changes in the expected life, changes in future forecast economic assumptions and other changes in models and assumptions.

The following table explains how changes in gross carrying amounts of loans during the period have contributed to changes in the provisions for ECL on loans.

	THE BANKING GROUP Unaudited			
	Performing		Non-performing	
$ millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Total gross carrying amount at the beginning of the period	**76,532**	**3,707**	**463**	**80,702**
Net transfers in/(out) of stages	**(430)**	**288**	**142**	**-**
Net further lending/repayment	**(368)**	**186**	**(33)**	**(215)**
New financial assets originated	**6,662**	**-**	**-**	**6,662**
Financial assets derecognised during the period	**(4,381)**	**(271)**	**(58)**	**(4,710)**
Amounts written-off	**-**	**-**	**(24)**	**(24)**
Total gross carrying amount as at 31 March 2019	**78,015**	**3,910**	**490**	**82,415**
Provision for ECL as at 31 March 2019	**(84)**	**(173)**	**(100)**	**(357)**
Total net carrying amount as at 31 March 2019	**77,931**	**3,737**	**390**	**82,058**

Note 6 Provisions for expected credit losses (continued)

The provisions for ECL on loans and credit commitments disaggregated into the types of credit exposures have been disclosed in Section iii Asset quality of the Registered bank disclosures.

As comparatives have not been restated for the adoption of NZ IFRS 9, the following table reconciles the 30 September 2018 provision for impairment charges on loans and credit commitments based on the requirements of NZ IAS 39. In subsequent reporting periods, as NZ IFRS 9 will have been effective for this disclosure for all periods presented in the Disclosure Statement, this table will no longer be required.

	THE BANKING GROUP
$ millions	30 Sep 18 Audited
Individually assessed provisions	
Balance at beginning of the year	48
Impairment charges/(benefits):	
New provisions	28
Reversal of previously recognised impairment charges	(18)
Amounts written off	(22)
Balance at end of the year	36
Collectively assessed provisions	
Balance at beginning of the year	332
Impairment charges/(benefits)	(34)
Interest adjustments	24
Balance at end of the year	322
Total provisions for impairment charges on loans and credit commitments	358
Provision for credit commitments	(34)
Total provisions for impairment charges on loans (Refer to Note 5)	324

Notes to the financial statements

Note 7 Deposits and other borrowings

	THE BANKING GROUP	
$ millions	**31 Mar 19 Unaudited**	30 Sep 18 Audited
Certificates of deposit	**896**	1,218
Non-interest bearing, repayable at call	**6,378**	5,903
Other interest bearing:		
At call	**24,520**	23,335
Term	**33,320**	32,646
Total deposits and other borrowings	**65,114**	63,102

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 10 for further details.

Note 8 Debt issues

	THE BANKING GROUP	
$ millions	**31 Mar 19 Unaudited**	30 Sep 18 Audited
Short-term debt		
Commercial paper	**443**	-
Total short-term debt	**443**	-
Long-term debt		
Non-domestic medium-term notes	**5,985**	6,100
Covered bonds	**6,179**	5,640
Domestic medium-term notes	**2,369**	1,985
Total long-term debt	**14,533**	13,725
Total debt issues	**14,976**	13,725

Debt issues have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 10 for further details.

Note 9 Related entities

Controlled entities of the Bank are set out in Note 24 to the financial statements included in the Disclosure Statement for the year ended 30 September 2018.

On 11 January 2019, Westpac NZ Operations Limited sold its 25% shareholding in Paymark Limited to Ingenico Group S.A, resulting in a gain on sale of $40 million which is recognised in other non-interest income. Refer to Note 3.

On 15 February 2019, the Bank declared and paid a dividend of $1,890 million to its immediate parent company, Westpac New Zealand Group Limited (**'WNZGL'**). An issue of 1,500 million ordinary shares in the Bank to WNZGL was made on the same day of payment of the dividend at a price of $1 per share and on the same terms of issue as all other ordinary shares on issue to WNZGL.

On 5 July 2017, Westpac New Zealand Staff Superannuation Scheme Trustee Limited registered a Change in Financial Reporting Month with the New Zealand Companies Office changing the balance date from 31 March to 30 September.

Notes to the financial statements

Note 10 Fair value of financial assets and liabilities

Fair Valuation Control Framework

The 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 Ultimate Parent Bank 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 Banking Group categorises all fair value instruments according to the hierarchy described as follows.

Valuation techniques

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

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

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
Non-asset backed debt instruments	Trading securities Available-for-sale securities/Investment securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

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.

Note 10 Fair value of financial assets and liabilities (continued)

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps, forwards 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. If consensus prices are not available, these are classified as Level 3 instruments.
Foreign exchange products	Derivative financial instruments Due from related entities Due to related entities	FX swaps – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Non-asset backed debt instruments	Trading securities Available-for-sale securities/Investment securities Due from related entities Due to related entities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities and corporate bonds Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities	Valued using observable market prices which are sourced from independent pricing services, broker quotes or inter-dealer prices.
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 Bank's implied credit worthiness.

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.

Notes to the financial statements

Note 10 Fair value of financial assets and financial liabilities (continued)

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

	THE BANKING GROUP			
	31 Mar 19 Unaudited[1]			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Trading securities	**-**	**1,265**	**-**	**1,265**
Derivative financial instruments	**-**	**288**	**-**	**288**
Investment securities	**1,053**	**2,939**	**-**	**3,992**
Due from related entities	**-**	**509**	**-**	**509**
Total financial assets measured at fair value	**1,053**	**5,001**	**-**	**6,054**
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	**-**	**896**	**-**	**896**
Derivative financial instruments	**-**	**345**	**-**	**345**
Debt issues at fair value	**-**	**443**	**-**	**443**
Due to related entities	**-**	**383**	**-**	**383**
Total financial liabilities measured at fair value	**-**	**2,067**	**-**	**2,067**

[1] Reflects the adoption of NZ IFRS 9. Comparatives have not been restated. Refer to Note 1 for further information.

	THE BANKING GROUP			
	30 Sep 18 Audited			
$ millions	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Trading securities	6	1,145	-	1,151
Derivative financial instruments	-	585	-	585
Available-for-sale securities	1,167	2,643	-	3,810
Due from related entities	-	558	-	558
Total financial assets measured at fair value	1,173	4,931	-	6,104
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	1,218	-	1,218
Derivative financial instruments	-	181	-	181
Due to related entities	-	251	-	251
Total financial liabilities measured at fair value	-	1,650	-	1,650

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (30 September 2018: no material transfers between levels).

Notes to the financial statements

Note 10 Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

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

	THE BANKING GROUP			
	31 Mar 19 Unaudited[1,2]		30 Sep 18 Audited[2]	
$ millions	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets not measured at fair value				
Cash and balances with central banks	**2,160**	**2,160**	1,353	1,353
Collateral paid	**294**	**294**	70	70
Loans	**82,058**	**82,202**	80,378	80,503
Other financial assets	**622**	**622**	225	225
Due from related entities	**817**	**817**	761	761
Total financial assets not measured at fair value	**85,951**	**86,095**	82,787	82,912
Financial liabilities not measured at fair value				
Collateral received	**215**	**215**	476	476
Deposits and other borrowings	**64,218**	**64,262**	61,884	61,923
Debt issues[3]	**14,533**	**14,658**	13,725	13,845
Other financial liabilities	**443**	**443**	560	560
Due to related entities	**1,412**	**1,416**	1,392	1,399
Loan capital[3]	**2,574**	**2,573**	2,622	2,645
Total financial liabilities not measured at fair value	**83,395**	**83,567**	80,659	80,848

[1] Reflects the adoption of NZ IFRS 9. Comparatives have not been restated. Refer to Note 1 for further information.

[2] In the current year, balances from receivables due from other financial institutions and payables due to other financial institutions have been reclassified to line items of a similar nature on the balance sheet and to collateral paid and collateral received where relevant. Comparatives have been restated. Refer to Note 1 for further information.

[3] The estimated fair value of debt issues and loan capital include the impact of changes in the Banking Group's credit spreads since origination.

A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 26 of the financial statements included in the Disclosure Statement for the year ended 30 September 2018.

Note 11 Credit related commitments, contingent assets and contingent liabilities

	THE BANKING GROUP	
$ millions	31 Mar 19 Unaudited	30 Sep 18 Audited
Letters of credit and guarantees	**799**	863
Commitments to extend credit	**24,888**	24,650
Other	**-**	60
Total undrawn credit commitments	**25,687**	25,573

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 Banking Group has contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the 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 Banking Group.

Notes to the financial statements

Note 12 Segment reporting

The Banking Group's segment reporting incorporates 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 Banking Group does not rely on any single major customer for its revenue base.

Segment comparative information for the six months ended 31 March 2018 has been restated to ensure consistent presentation with the current reporting period. This includes adjustments for:

- changes to expense allocations and the Ultimate Parent Bank's capital allocation framework; and
- NZ IFRS 9 and NZ IFRS 15 that were adopted on 1 October 2018. Segment comparatives have been restated as though the standards were adopted on 1 October 2017, except for ECL provisioning. This resulted in comparative reclassifications between individual line items that do not impact total results. These adjustments are also reflected as reconciling items and are comprised of:
  - facility fees: The Banking Group has reclassified facility fees from non-interest income to net interest income to more appropriately reflect the relationship with drawn lines of credit;
  - other fees and expenses: The Banking Group has restated the classification of a number of fees and expenses which has resulted in the grossing up of non-interest income and operating expenses; and
  - interest carrying adjustments: Interest on performing loans (stage 1 and stage 2 loans) is now measured on the gross loan value. Previously, interest on performing loans was recognised on the loan balance net of provisions. This adjustment increases interest income and impairment charges.

Operating segments are defined by the customers they serve and the services they provide. The 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
- Investments and Insurance provides funds management and insurance services.

Other reconciling items primarily represent:

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

Notes to the financial statements

Note 12 Segment reporting (continued)

	THE BANKING GROUP				
$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
Six months ended 31 March 2019 (Unaudited)					
Net interest income	**578**	**398**	**-**	**7**	**983**
Non-interest income	**71**	**60**	**73**	**(16)**	**188**
Net operating income before operating expenses and impairment charges	**649**	**458**	**73**	**(9)**	**1,171**
Operating expenses	**(349)**	**(115)**	**(15)**	**11**	**(468)**
Impairment (charges)/benefits	**(19)**	**5**	**-**	**-**	**(14)**
Profit before income tax	**281**	**348**	**58**	**2**	**689**
Six months ended 31 March 2018 (Unaudited) (restated)					
Net interest income	581	373	-	(49)	905
Non-interest income	84	52	69	(24)	181
Net operating income before operating expenses and impairment charges	665	425	69	(73)	1,086
Operating expenses	(332)	(110)	(15)	11	(446)
Impairment (charges)/benefits	(35)	(4)	-	12	(27)
Profit before income tax	298	311	54	(50)	613
As at 31 March 2019 (Unaudited)					
Total gross loans	**47,118**	**35,237**	**-**	**60**	**82,415**
Total deposits and other borrowings	**37,024**	**27,194**	**-**	**896**	**65,114**
As at 30 September 2018 (Audited)					
Total gross loans	46,605	34,068	-	29	80,702
Total deposits and other borrowings	36,147	25,737	-	1,218	63,102

Registered bank disclosures

Unaudited

This section contains the additional disclosures required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended).

i. General information

Limits on material financial support by the Ultimate Parent Bank

On 19 November 2015, the Australian Prudential Regulation Authority (**'APRA'**) informed the Ultimate Parent 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 Ultimate Parent 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 Ultimate Parent 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. As at 31 March 2019, 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 Ultimate Parent Bank.

APRA has also confirmed the terms on which the Ultimate Parent 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.

Guarantee arrangements

No material obligations of the Bank are guaranteed as at the date the Directors signed this Disclosure Statement.

Changes in the Bank's Board of Directors

There have been no changes in the composition of the Board of Directors of the Bank (the **'Board'**) since 30 September 2018 to the six months ending 31 March 2019.

Philippa Mary Greenwood was appointed to the Board as an independent non-executive director effective 1 April 2019.

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

Credit ratings

The 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	A1	Stable
S&P Global Ratings	AA-	Negative

i. General information (continued)

Other material matters

Thematic review of Bank Conduct and Culture

In May 2018, the Financial Markets Authority (**'FMA'**) and the Reserve Bank of New Zealand (**'Reserve Bank'**) commenced thematic reviews into the conduct and culture at New Zealand's retail banks and life insurers. These reviews were established to assess whether misconduct of the type highlighted by the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry may be taking place in New Zealand. The thematic review report concerning the retail banks review was released on 5 November 2018 and the thematic review report concerning the life insurers was released on 29 January 2019. While no widespread instances of misconduct were identified in the reports, the regulators were critical of the way in which banks and life insurers are managing conduct and culture risks within their organisations and sought action plans to address the issues (i) from the banks by the end of March 2019; and (ii) from life insurers by the end of June 2019. The Bank provided its response and action plan by the end of March 2019 and is now awaiting any further feedback from the regulators.

In response to the reviews, the Ministry of Business, Innovation & Employment (**'MBIE'**) has also published an options paper on 27 April 2019 which considers how the conduct of financial institutions could be better regulated. The options outlined in the paper include: the introduction of overarching duties to govern the conduct of financial institutions; senior management and director accountability for breach of these duties and measures to address conflicted remuneration, oversight of intermediaries and product suitability. The paper also outlines a range of proposed tools for enforcing the obligations in the proposed new regime. Submissions on the paper are due on 7 June 2019, with the intention of introducing legislation to Parliament by the end of 2019.

Reserve Bank Capital Review

The Reserve Bank is undertaking a Bank Capital Adequacy Framework review on the quantum and makeup of bank capital. The Reserve Bank has now made 'in principle' decisions on the risk weighted assets (**'RWA'**) framework, including the introduction of dual reporting, a standardised methodology for operational risk, and capital floors to internal rating models.

On 14 December 2018, the Reserve Bank released a consultation paper to seek the public's view on a proposal to significantly increase the level of regulatory capital in the New Zealand system. In the paper, the Reserve Bank proposed to set a Tier 1 capital requirement equal to 16% of RWA for banks deemed systematically important, such as the Bank. The proposal of a Tier 1 ratio of 6% of RWA as a regulatory minimum is unchanged, and of this no more than 1.5% of RWA can be contributed by Additional Tier 1 capital or redeemable preference shares. The Reserve Bank have proposed a five year transition period.

The proposed changes aim to further strengthen the New Zealand banking system to protect the economy and depositors from bank failure. Meeting the Reserve Bank's proposed minimum 16% Tier 1 capital ratio would require a further estimated $3.5 - 4 billion of Tier 1 capital if applied at 31 March 2019 (assuming that the existing $1.5 billion Additional Tier 1 capital instrument is not eligible to meet future Tier 1 capital requirements). The Bank is already strongly capitalised with a Tier 1 capital ratio of 14.5% at 31 March 2019.

ii. Additional financial disclosures

Additional information on balance sheet

$ millions	THE BANKING GROUP 31 Mar 19 Unaudited	30 Sep 18 Audited
Interest earning and discount bearing assets	**91,189**	87,810
Interest and discount bearing liabilities	**77,946**	75,409
Total amounts due from related entities	**1,326**	1,319
Total amounts due to related entities	**4,369**	4,265

Financial assets pledged as collateral

The 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 5, the carrying value of these financial assets pledged as collateral is:

$ millions	THE BANKING GROUP 31 Mar 19 Unaudited	30 Sep 18 Audited
Cash	**294**	70
Securities pledged under repurchase agreements:[1]		
Trading securities	**14**	-
Available-for-sale securities	**-**	15
Investment securities	**31**	-
Total amount pledged to secure liabilities (excluding CB Programme)	**339**	85

[1] Securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank which is recorded within due to related entities on the balance sheet.

ii. Additional financial disclosures (continued)

Additional information on concentrations of credit risk

	THE BANKING GROUP
$ millions	**31 Mar 19**
On-balance sheet credit exposures consist of	
Cash and balances with central banks	**2,160**
Collateral paid	**294**
Trading securities	**1,265**
Derivative financial instruments	**288**
Investment securities	**3,992**
Loans	**82,058**
Other financial assets	**622**
Due from related entities	**1,326**
Total on-balance sheet credit exposures	**92,005**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**433**
Agriculture	**8,620**
Construction	**576**
Finance and insurance	**5,773**
Forestry and fishing	**449**
Government, administration and defence	**6,264**
Manufacturing	**2,343**
Mining	**169**
Property	**6,829**
Property services and business services	**1,320**
Services	**2,074**
Trade	**2,037**
Transport and storage	**1,182**
Utilities	**1,540**
Retail lending	**51,350**
Subtotal	**90,959**
Provisions for impairment charges on loans	**(357)**
Due from related entities	**1,326**
Other financial assets	**77**
Total on-balance sheet credit exposures	**92,005**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	**25,687**
Total off-balance sheet credit exposures	**25,687**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**106**
Agriculture	**596**
Construction	**488**
Finance and insurance	**1,544**
Forestry and fishing	**152**
Government, administration and defence	**766**
Manufacturing	**1,501**
Mining	**164**
Property	**1,480**
Property services and business services	**593**
Services	**679**
Trade	**1,870**
Transport and storage	**796**
Utilities	**1,629**
Retail lending	**13,323**
Total off-balance sheet credit exposures	**25,687**

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

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on concentrations of funding

	THE BANKING GROUP
$ millions	**31 Mar 19**
Funding consists of	
Collateral received	**215**
Deposits and other borrowings	**65,114**
Other financial liabilities[1]	**7**
Debt issues[2]	**14,976**
Due to related entities[3]	**1,444**
Loan capital	**2,574**
Total funding	**84,330**
Analysis of funding by geographical area[2]	
New Zealand	**66,406**
Australia	**1,284**
United Kingdom	**8,662**
United States of America	**882**
Other	**7,096**
Total funding	**84,330**
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	**364**
Agriculture	**1,444**
Construction	**1,777**
Finance and insurance	**31,675**
Forestry and fishing	**207**
Government, administration and defence	**1,862**
Manufacturing	**1,489**
Mining	**71**
Property services and business services	**6,053**
Services	**4,208**
Trade	**1,492**
Transport and storage	**518**
Utilities	**435**
Households	**27,007**
Other[4]	**4,284**
Subtotal	**82,886**
Due to related entities[3]	**1,444**
Total funding	**84,330**

[1] Other financial liabilities, as presented above, are in respect of interbank placements.
[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 programmes does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other'. These instruments may have subsequently been on-sold.
[3] Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivative financial instruments and other liabilities.
[4] Includes deposits from non-residents.

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

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2019. The 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.

	THE BANKING GROUP						
	31 Mar 19						
$ millions	Up to 3 Months	Over 3 Months Up to 6 Months	Over 6 Months 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	1,950	-	-	-	-	210	2,160
Collateral paid	294	-	-	-	-	-	294
Trading securities	1,193	72	-	-	-	-	1,265
Derivative financial instruments	-	-	-	-	-	288	288
Investment securities	-	-	753	1,412	1,827	-	3,992
Loans	43,833	5,802	13,704	14,781	4,195	(257)	82,058
Other financial assets	390	-	-	-	-	232	622
Due from related entities	983	-	-	-	-	343	1,326
Total financial assets	48,643	5,874	14,457	16,193	6,022	816	92,005
Non-financial assets							999
Total assets							93,004
Financial liabilities							
Collateral received	215	-	-	-	-	-	215
Deposits and other borrowings	40,352	8,779	7,751	1,167	687	6,378	65,114
Other financial liabilities	1	-	-	-	-	442	443
Derivative financial instruments	-	-	-	-	-	345	345
Debt issues	6,112	235	101	1,800	6,728	-	14,976
Due to related entities	1,429	1	-	-	14	351	1,795
Loan capital	2,574	-	-	-	-	-	2,574
Total financial liabilities	50,683	9,015	7,852	2,967	7,429	7,516	85,462
Non-financial liabilities							225
Total liabilities							85,687
On-balance sheet interest rate repricing	(2,040)	(3,141)	6,605	13,226	(1,407)		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	14,096	(1,970)	(6,143)	(9,157)	3,174		
Net interest rate repricing gap	12,056	(5,111)	462	4,069	1,767		

ii. Additional financial disclosures (continued)

Additional information on liquidity risk

Contractual maturity of financial liabilities

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 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 financial instruments 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" 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 liabilities that the Banking Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the table below.

	THE BANKING GROUP						
	31 Mar 19						
$ 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 and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	215	-	-	-	-	215
Deposits and other borrowings	29,689	5,799	11,461	16,931	1,977	-	65,857
Other financial liabilities	6	119	1	-	-	-	126
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	18	11	37	91	3	160
Held for hedging purposes (gross settled):							
Cash outflow	-	11	12	66	3,065	-	3,154
Cash inflow	-	-	-	(22)	(2,734)	-	(2,756)
Debt issues	-	10	1,612	3,165	10,328	402	15,517
Due to related entities:							
Non-derivative balances	644	45	751	1	15	-	1,456
Derivative financial instruments:							
Held for trading	2	-	-	-	-	-	2
Held for hedging purposes (net settled)	-	11	40	84	108	-	243
Held for hedging purposes (gross settled):							
Cash outflow	-	-	15	42	1,259	-	1,316
Cash inflow	-	-	(13)	(37)	(1,166)	-	(1,216)
Loan capital	-	-	13	36	184	2,678	2,911
Total undiscounted financial liabilities	30,341	6,228	13,903	20,303	13,127	3,083	86,985
Total contingent liabilities and commitments							
Letters of credit and guarantees	799	-	-	-	-	-	799
Commitments to extend credit	24,888	-	-	-	-	-	24,888
Total undiscounted contingent liabilities and commitments	25,687	-	-	-	-	-	25,687

ii. Additional financial disclosures (continued)

Liquid assets

The table below shows the 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 Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Banking Group's present requirements.

	THE BANKING GROUP
$ millions	**31 Mar 19**
Cash and balances with central banks	**2,160**
Interbank lending	**390**
Receivables due from the Ultimate Parent Bank	**161**
Supranational securities	**1,652**
NZ Government securities	**1,189**
NZ public securities	**1,862**
NZ corporate securities	**689**
Residential mortgage-backed securities	**3,950**
Total liquid assets	**12,053**

Reconciliation of mortgage-related amounts

The table below provides the Banking Group's reconciliation between any amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

	THE BANKING GROUP
$ millions	**31 Mar 19**
Residential mortgages - total gross loans (as disclosed in Note 5 and Section iii.)	**49,579**
Reconciling items:	
Unamortised deferred fees and expenses	**(169)**
Fair value hedge adjustments	**(60)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**10,212**
Undrawn at default[1]	**(2,596)**
Residential mortgages by LVR (as disclosed in Additional mortgage information in Section iv.)	**56,966**
Accrued interest receivable	**77**
Partial write-offs	**4**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class in Section iv.)	**57,047**

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

iii. Asset quality

Past due assets

	THE BANKING GROUP				
	31 Mar 19				
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Other**	**Total**
Past due but not individually impaired assets					
Less than 30 days past due	**761**	**144**	**162**	**-**	**1,067**
At least 30 days but less than 60 days past due	**95**	**25**	**16**	**-**	**136**
At least 60 days but less than 90 days past due	**32**	**11**	**7**	**-**	**50**
At least 90 days past due	**4**	**1**	**5**	**-**	**10**
Total past due but not individually impaired assets	**892**	**181**	**190**	**-**	**1,263**

iii. Asset quality (continued)

Movements in components of loss allowance

The provisions for ECL on loans and credit commitments can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP					
	Performing		Non-performing	Collectively assessed provisions	Individually assessed provisions	
$ millions	Stage 1	Stage 2	Stage 3			Total
Residential mortgages						
Provision for impairment charges as at 30 September 2018	-	-	-	54	7	61
Restatement for adoption of NZ IFRS 9	33	25	32	(54)	(7)	29
Restated provision for ECL as at 1 October 2018	33	25	32	-	-	90
Net transfers in/(out) of stages	6	(3)	(3)			-
Reversals of previously recognised impairment charges	-	-	-			-
New financial assets originated	2	-	-			2
Financial assets derecognised during the period	(2)	(2)	(5)			(9)
Changes in collective provisions due to amounts written off	-	-	-			-
Other charges/(credits) to the income statement	(10)	4	14			8
Total charges/(credits) to the income statement for ECL	(4)	(1)	6			1
Amounts written off from individually assessed provisions	-	-	(1)			(1)
Total provision for ECL as at 31 March 2019	29	24	37			90
Other retail						
Provision for impairment charges as at 30 September 2018	-	-	-	99	3	102
Restatement for adoption of NZ IFRS 9	50	64	21	(99)	(3)	33
Restated provision for ECL as at 1 October 2018	50	64	21	-	-	135
Net transfers in/(out) of stages	22	(28)	6			-
Reversals of previously recognised impairment charges	-	-	(1)			(1)
New financial assets originated	2	-	-			2
Financial assets derecognised during the period	(3)	(5)	(2)			(10)
Changes in collective provisions due to amounts written off	-	-	(22)			(22)
Other charges/(credits) to the income statement	(25)	33	27			35
Total charges/(credits) to the income statement for ECL	(4)	-	8			4
Amounts written off from individually assessed provisions	-	-	(1)			(1)
Total provision for ECL as at 31 March 2019	46	64	28			138
Corporate						
Provision for impairment charges as at 30 September 2018	-	-	-	169	26	195
Restatement for adoption of NZ IFRS 9	20	114	36	(169)	(26)	(25)
Restated provision for ECL as at 1 October 2018	20	114	36	-	-	170
Net transfers in/(out) of stages	1	(2)	1			-
Reversals of previously recognised impairment charges	-	-	(5)			(5)
New financial assets originated	3	-	-			3
Financial assets derecognised during the period	(1)	(13)	-			(14)
Changes in collective provisions due to amounts written off	-	-	-			-
Other charges/(credits) to the income statement	5	8	4			17
Total charges/(credits) to the income statement for ECL	8	(7)	-			1
Amounts written off from individually assessed provisions	-	-	-			-
Total provision for ECL as at 31 March 2019	28	107	36			171

Registered bank disclosures

Unaudited

iii. Asset quality (continued)

Impacts of changes in gross financial assets on loss allowances

The gross carrying amounts of loans by expected loss allowance can be further disaggregated into the following types of credit exposures:

	THE BANKING GROUP			
	Performing		Non-performing	
$ millions	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Total gross carrying amount at the beginning of the period	47,254	1,364	275	48,893
Net transfers in/(out) of stages	(237)	157	80	-
Net further lending/repayment	(602)	15	(4)	(591)
New financial assets originated	4,192	-	-	4,192
Financial assets derecognised during the period	(2,747)	(119)	(48)	(2,914)
Amounts written-off	-	-	(1)	(1)
Total gross carrying amount as at 31 March 2019	47,860	1,417	302	49,579
Provision for ECL as at 31 March 2019	(25)	(25)	(36)	(86)
Total net carrying amount as at 31 March 2019	47,835	1,392	266	49,493
Other retail				
Total gross carrying amount at the beginning of the period	3,668	208	52	3,928
Net transfers in/(out) of stages	(39)	3	36	-
Net further lending/repayment	(141)	18	2	(121)
New financial assets originated	286	-	-	286
Financial assets derecognised during the period	(238)	(16)	(9)	(263)
Amounts written-off	-	-	(23)	(23)
Total gross carrying amount as at 31 March 2019	3,536	213	58	3,807
Provision for ECL as at 31 March 2019	(37)	(59)	(27)	(123)
Total net carrying amount as at 31 March 2019	3,499	154	31	3,684
Corporate				
Total gross carrying amount at the beginning of the period	25,334	2,133	136	27,603
Net transfers in/(out) of stages	(154)	128	26	-
Net further lending/repayment	523	153	(31)	645
New financial assets originated	2,156	-	-	2,156
Financial assets derecognised during the period	(1,334)	(134)	(1)	(1,469)
Amounts written-off	-	-	-	-
Total gross carrying amount as at 31 March 2019	26,525	2,280	130	28,935
Provision for ECL as at 31 March 2019	(22)	(89)	(37)	(148)
Total net carrying amount as at 31 March 2019	26,503	2,191	93	28,787

The above gross carrying amount tables do not include 'Other' credit exposures (refer to Note 5) on the basis that the provision for ECL is not considered material.

iii. Asset quality (continued)

Other asset quality information

The Banking Group had undrawn commitments of $22 million (30 September 2018: $4 million) to counterparties for whom drawn balances are classified as individually impaired assets under corporate loans as at 31 March 2019.

The Banking Group does not have other assets under administration as at 31 March 2019.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios

Capital

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank Capital Adequacy Framework (Internal Models Based Approach) (**'BS2B'**), except for the matters of non-compliance with condition of registration 1B disclosed on page 54. The Bank considers its internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk and any effect of the non-compliance with its conditions of registration 1B on the information relating to capital adequacy is not considered by the Bank to be material.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (**'BCBS'**) and adopted by the Reserve Bank in supervising the Banking Group.

The Banking Group's capital summary

	THE BANKING GROUP
$ millions	**31 Mar 19**
Tier 1 capital	
Common Equity Tier 1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	**6,600**
Retained earnings (net of appropriations)	**816**
Accumulated other comprehensive income and other disclosed reserves[1]	**(99)**
Less deductions from Common Equity Tier 1 capital	
Goodwill	**(477)**
Other intangible assets[2]	**(159)**
Cash flow hedge reserve	**104**
Deferred tax asset deduction	**(184)**
Expected loss excess over eligible allowance	**(252)**
Total Common Equity Tier 1 capital	**6,349**
Additional Tier 1 capital	
Additional Tier 1 capital instruments[3]	**1,500**
Total additional Tier 1 capital	**1,500**
Total Tier 1 capital	**7,849**
Tier 2 capital	
Tier 2 capital instruments[3]	**1,087**
Revaluation reserves	**-**
Eligible impairment allowance in excess of expected loss	**-**
Total Tier 2 capital	**1,087**
Total capital	**8,936**

[1] Accumulated other comprehensive income and other disclosed reserves consist of investment securities reserve and cash flow hedge reserve as disclosed as reserves on the balance sheet.
[2] Includes capitalised transaction costs on loan capital and debt issues.
[3] Classified as debt and excludes capitalised transaction costs.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Capital structure

Ordinary shares

In accordance with BS2B, ordinary share capital is classified as Common Equity Tier 1 capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Additional Tier 1 loan capital

A summary of the key terms and features of the Additional Tier 1 loan capital (**'AT1 notes'**) is provided below:

$	Issue date	Counterparty	Interest rate	Optional redemption date
NZ$1,500 million notes [1]	22 September 2017	NZ Branch of the Ultimate Parent Bank	NZ 90 day bank bill rate + 3.9594% p.a.	21 September 2027 and every fifth anniversary thereafter

[1] The AT1 notes rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank.

Interest payable

Quarterly interest payments on the AT1 notes are at the absolute discretion of the Bank and will only be paid if the payment conditions are satisfied, including that the interest payment will not result in the Bank becoming insolvent immediately following the interest payment; not result in a breach of the Reserve Bank Prudential Standards; and the payment date not falling on the date of a capital trigger event or non-viability trigger event. Interest payments are non-cumulative. If interest is not paid in full, the Bank may not determine or pay any dividends on its ordinary shares or undertake a discretionary buy back or capital reduction of the Bank's ordinary shares (except in limited circumstances).

Redemption

The Bank may elect to redeem all or some of the AT1 notes for their face value on 21 September 2027 and every fifth anniversary thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the AT1 notes for certain tax or regulatory reasons is permitted subject to the Reserve Bank's prior written approval.

Conversion

If a capital trigger event or non-viability trigger event occurs, the Bank must convert some or all of the AT1 notes into a variable number of ordinary shares issued by the Bank (calculated with reference to the net assets of the Bank and the total number of ordinary shares on issue at the conversion date) that is sufficient, in the case of a capital trigger event, to return the Bank's Common Equity Tier 1 capital ratio to above 5.125% as determined by the Bank in consultation with the Reserve Bank; or, in the case of a non-viability trigger event, to satisfy the direction of the Reserve Bank or the decision of the statutory manager of the Bank. A capital trigger event occurs when the Bank determines, or the Reserve Bank notifies in writing that it believes, the Bank's Common Equity Tier 1 Capital ratio is equal to or less than 5.125%. A non-viability trigger event occurs when the Reserve Bank or the statutory manager (appointed pursuant to section 117 of the Reserve Bank Act) directs the Bank to convert or write off all or some of its AT1 notes.

If conversion of the AT1 notes does not occur within five business days of a capital trigger event or a non-viability trigger event, holders' rights in relation to the AT1 notes will be immediately and irrevocably terminated.

The Bank is able to elect to convert all the AT1 notes for certain tax or regulatory reasons (or in certain other circumstances).

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Tier 2 loan capital

A summary of the key terms and features of the Tier 2 loan capital ('**Tier 2 notes**') is provided below.

$	Issue date	Counterparty	Interest rate	Maturity Date	Optional redemption date
AU$1,040 million notes [1]	8 September 2015	London Branch of the Ultimate Parent Bank	Australian 90 day bank bill rate + 2.87% p.a.	22 March 2026	22 March 2021 and every interest payment date thereafter

[1] The Tier 2 notes rank equally amongst themselves and are subordinated to the claims of depositors and senior or less subordinated creditors of the Bank.

Interest payable

Interest payments on the Tier 2 notes are subject to the Bank being solvent at the time of, and immediately following the interest payment.

Early redemption

The Bank may elect to redeem all or some of the Tier 2 notes for their face value together with accrued interest (if any) on 22 March 2021 or any interest payment date thereafter, subject to the Reserve Bank's prior written approval. Early redemption of all of the Tier 2 notes for certain tax or regulatory reasons is permitted on an interest payment date subject to the Reserve Bank's prior written approval.

Conversion

If a non-viability trigger event occurs, the Bank must convert such number of the Tier 2 notes into a variable number of ordinary shares issued by the Bank (calculated with reference to the net assets of the Bank and the total number of ordinary shares on issue on the conversion date) that is sufficient to satisfy the direction of the Reserve Bank or the decision of the statutory manager. A non-viability trigger event occurs when the Reserve Bank or the statutory manager (appointed pursuant to section 117 of the Reserve Bank Act) directs the Bank to convert or write off all or some of its Tier 2 notes. If conversion of the Tier 2 notes fails to take effect within five business days, holders' rights in relation to the Tier 2 notes will be immediately and irrevocably terminated.

Reserves

Investment securities at FVOCI reserve

This comprises the changes in the fair value of investment securities, net of tax. These changes are transferred to non-interest income in the income statement when the asset is either disposed of or impaired.

Cash flow hedge reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of tax.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Credit risk subject to the Internal Rating Based ('IRB') approach

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 31 March 2019

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.18	3,029	19.07	7.29	234	19
0.25 to 1.0	0.49	28,588	20.47	16.65	5,046	404
1.0 to 2.5	1.42	21,194	19.90	33.75	7,582	607
2.5 to 10.0	4.54	3,930	22.17	74.37	3,098	248
10.0 to 99.99	-	-	-	-	-	-
Default	100.00	306	21.31	134.73	437	35
Total	1.63	57,047	20.31	27.12	16,397	1,313
Other retail						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.14	558	40.49	12.85	76	6
0.25 to 1.0	0.36	1,532	62.82	37.44	608	48
1.0 to 2.5	2.22	1,190	68.55	89.74	1,132	91
2.5 to 10.0	5.50	295	83.68	125.36	392	31
10.0 to 99.99	21.16	228	71.58	149.37	361	29
Default	100.00	26	75.70	36.28	10	1
Total	3.22	3,829	63.56	63.54	2,579	206
Small business						
0.00 to 0.10	0.03	165	73.76	7.43	13	1
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	0.31	646	21.28	17.52	120	10
1.0 to 2.5	1.84	1,466	20.81	26.45	411	32
2.5 to 10.0	4.78	316	19.20	28.36	95	8
10.0 to 99.99	15.88	35	21.93	43.13	16	1
Default	100.00	36	20.76	154.61	59	5
Total	3.22	2,664	24.03	25.28	714	57

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Corporate/Business lending						
0.00 to 0.02	-	-	-	-	-	-
0.02 to 0.04	0.03	3,042	41.46	18.92	610	49
0.04 to 0.10	0.08	4,565	46.26	26.89	1,301	104
0.10 to 0.50	0.21	7,488	46.01	42.70	3,389	271
0.50 to 3.0	1.48	14,534	35.24	73.46	11,317	905
3.0 to 10.0	3.70	844	35.18	101.49	908	73
10.0 to 99.0	28.80	1,284	40.22	198.67	2,704	216
Default	100.00	89	34.24	154.76	146	12
Total	2.28	31,846	40.14	60.36	20,375	1,630
Sovereign						
0.00 to 0.02	0.01	1,656	20.77	4.27	75	6
0.02 to 0.04	0.02	3,210	7.24	1.20	41	3
0.04 to 0.10	0.06	2	60.00	-	-	-
0.10 to 0.50	0.19	1	60.00	94.34	1	-
0.50 to 3.0	2.32	1	47.17	94.34	1	-
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.01	4,870	11.88	2.29	118	9
Bank						
0.00 to 0.02	-	-	-	-	-	-
0.02 to 0.04	0.03	2,243	16.41	5.05	120	10
0.04 to 0.10	0.05	1,514	53.23	19.63	315	25
0.10 to 0.50	0.13	8	60.00	35.38	3	-
0.50 to 3.0	1.45	8	55.78	141.51	12	1
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.04	3,773	31.36	11.25	450	36
Total credit risk exposures subject to the internal ratings based approach		104,029			40,633	3,251

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

The following table summarises the Banking Group's credit risk exposures by asset class arising from undrawn commitments and other off-balance sheet exposures. These unaudited amounts are included in the previous tables.

$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	10,212	7,616	-	-
Other retail	3,190	1,849	-	-
Small business	892	794	-	-
Corporate/Business lending	9,334	9,322	-	-
Sovereign	152	152	-	-
Bank	868	937	-	-
Total	**24,648**	**20,670**	-	-

Additional mortgage information

Residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2019

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

For loans originated from 1 January 2008, the 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 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.

	THE BANKING GROUP					
	31 Mar 19					
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	21,196	11,860	12,073	2,619	1,602	49,350
Undrawn commitments and other off-balance sheet exposures	5,286	1,191	830	125	184	7,616
Value of exposures	**26,482**	**13,051**	**12,903**	**2,744**	**1,786**	**56,966**

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Specialised lending subject to the slotting approach

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 31 March 2019

Supervisory slotting grade	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Strong	3,515	70.00	2,608	209
Good	3,671	90.00	3,503	280
Satisfactory	644	115.00	785	63
Weak	181	250.00	479	38
Default	73	-	-	-
Total	**8,084**	**86.07**	**7,375**	**590**

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

The following table summarises the Banking Group's specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	1,043	90.45	1,000	80

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Credit risk exposures subject to the standardised approach

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2019

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Other assets[2]	1,272	37.53	506	40
Total on-balance sheet exposures	**1,272**		**506**	**40**

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

[2] Relate to property and equipment, other assets and related parties.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Market related contracts subject to the standardised approach						
Foreign exchange contracts	14,009	N/A	684	20.00	145	12
Interest rate contracts	48,773	N/A	64	20.00	14	1
Credit value adjustment	-	N/A	-	-	38	3
Total market related contracts subject to the standardised approach	62,782		748		197	16
Standardised subtotal (on and off-balance sheet)			2,020		703	56

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 35.2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2018 for further details). This includes the Banking Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to LGD. The value of the guarantee is not always separately recorded, and therefore, not available for disclosure, under Clause 7 of Schedule 11 to the Order.

Definitions of PD, LGD and EAD

i. **PD**
The PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

ii. **LGD**
The LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

iii. **EAD**
EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

Equity risk

The Banking Group's equity exposures as at 31 March 2019

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) that are not publicly traded	-	300	-	-
All other holdings (not deducted from capital)	-	400	-	-

[1] The value of the scalar used in determining the risk weighted assets is 1.06 as required by the conditions of registration.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Operational risk

Operational risk capital requirement

	THE BANKING GROUP	
	31 Mar 19	
$ millions	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Methodology implemented Advanced Measurement Approach		
Operational risk	4,500	360

Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with BS2B 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 Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2019 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2B.

The following table provides a summary of the 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 2019:

	THE BANKING GROUP	
	31 Mar 19	
$ millions	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	931	75
Foreign currency risk	-	-
Equity risk	-	-
Peak end-of-day		
Interest rate risk	1,554	124
Foreign currency risk	-	-
Equity risk	-	-

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Total capital requirements
Banking Group Pillar 1 Total Capital Requirement

	THE BANKING GROUP		
	31 Mar 19		
$ millions	Total Exposure After Credit Risk Mitigation	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Credit risk			
Exposures subject to the internal ratings based approach	104,029	40,633	3,251
Equity exposures	-	-	-
Specialised lending subject to the slotting approach	8,084	7,375	590
Exposures subject to the standardised approach	2,020	703	56
Total credit risk (scaled)[1]	114,133	48,711	3,897
Operational risk	N/A	4,500	360
Market risk	N/A	931	75
Total	114,133	54,142	4,332

[1] The value of the scalar used in determining the credit risk weighted exposure is 1.06 as required by the conditions of registration.

Capital ratios

The Basel banking accords (the **'Accords'**) have been developed and strengthened over time by the BCBS to enhance the banking regulatory framework. The Accords are made up of the different Basel frameworks with the latest being Basel III. Basel III builds on the Basel I and Basel II frameworks, and seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen banks' transparency. The Basel III framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholder's equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent.

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on BS2B.

	THE BANKING GROUP			THE BANK[2]	
%	Reserve Bank Minimum Ratios[1]	31 Mar 19	31 Mar 18	31 Mar 19	31 Mar 18
Common Equity Tier 1 capital ratio	6.5	**11.7**	11.8	**11.0**	9.4
Tier 1 capital ratio	8.0	**14.5**	14.6	**13.6**	11.6
Total capital ratio	10.0	**16.5**	16.6	**15.5**	13.3
Buffer ratio	2.5	**5.2**	5.3	**N/A**	N/A

[1] Changes to the Bank's conditions of registration, effective from 31 December 2017, have increased the Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio (**'minimum capital ratios'**) by 2% compared to the minimum capital ratios as at 30 September 2017. The increased minimum capital ratios will remain in place until the Bank has satisfied the Reserve Bank that all existing issues in relation to the matters of non-compliance on page 54 have been resolved.
[2] On 26 September 2018 the Reserve Bank confirmed it has no objection to the Bank using the Internal Ratings Based (**'IRB'**) approach to assess the risk weighting of two solo-deconsolidated entities for the purposes of calculating the Bank's solo capital ratios. On a comparable basis, the Bank's solo capital ratios as at 31 March 2018 would be Common Equity Tier 1 of 11.0%, Tier 1 capital of 13.7% and Total capital of 15.6%.

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Capital for other material risks

The Banking Group's internal capital adequacy assessment process identifies, reviews and measures additional material risks that must be captured within the Banking Group's capital adequacy assessment process. The additional material risks considered are those not captured by Pillar 1 regulatory capital requirements and include compliance risk, conduct risk, liquidity risk, reputational risk, environmental, social and governance risk, business/strategic risk, other assets risk, model risk, deferred acquisition cost risk and subsidiary risk.

The Banking Group's internal capital allocation for 'other material risks' is $243 million as at 31 March 2019 (31 March 2018: $246 million).

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	31 Mar 19	31 Mar 18
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations)[1, 2]		
Common Equity Tier 1 capital ratio	**10.6**	10.5
Additional Tier 1 capital ratio	**2.2**	2.3
Tier 1 capital ratio	**12.8**	12.8
Tier 2 capital ratio	**1.8**	2.0
Total regulatory capital ratio	**14.6**	14.8
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
Common Equity Tier 1 capital ratio	**10.7**	10.4
Additional Tier 1 capital ratio	**2.3**	2.4
Tier 1 capital ratio	**13.0**	12.8
Tier 2 capital ratio	**1.8**	2.1
Total regulatory capital ratio	**14.8**	14.9

[1] The capital ratios represent information mandated by APRA. The capital ratios of the Ultimate Parent Bank Group are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

[2] Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Ultimate Parent 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 Ultimate Parent Bank.

[3] Ultimate Parent Bank (Extended Licensed Entity) comprises the Ultimate Parent 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 Ultimate Parent Bank Group are required to maintain minimum ratios of capital to RWA, as determined by APRA. For the calculation of RWAs, the Ultimate Parent Bank Group is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Ultimate Parent Bank 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 BCBS, except where APRA has exercised certain discretions.

The Ultimate Parent Bank 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 Ultimate Parent Bank's website (www.westpac.com.au).

The Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations), and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2019.

Registered bank disclosures

Unaudited

iv. Capital adequacy under the internal models based approach, and regulatory liquidity ratios (continued)

Regulatory liquidity ratios

The Bank calculates liquidity ratios in accordance with the Reserve Bank document entitled 'Liquidity Policy' (BS 13) (**'BS 13'**). Ratios are calculated daily and are part of the Bank's management of liquidity risk (refer to Note 35.4 to the financial statements included in the Disclosure Statement for the year ended 30 September 2018 for further details). Quarterly, average ratios are produced in line with the Reserve Bank rules and guidance.

	THE BANKING GOUP	
%	**31 Mar 19**	31 Dec 18
Average for the three months ended		
One-week mismatch ratio	**5.57**	4.94
One-month mismatch ratio	**9.05**	8.34
Core funding ratio	**82.12**	82.27

v. Concentration of credit exposures to individual counterparties

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

The number of individual bank and non-bank counterparties to which the Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital:

	THE BANKING GROUP	
	31 Mar 19	
	Bank Counterparties[1]	Non-bank Counterparties[2]
% of Banking Group's Common Equity Tier 1 Capital	Long-term credit rating A- or A3 and above	Long-term credit rating A- or A3 and above
As at 31 March 2019[3]		
Exceeds 10% and not 15%	-	**2**
Exceeds 15% and not 20%	-	-
Exceeds 20% and not 25%	-	**1**
Exceeds 25% and not 30%	-	-
Peak end-of-day aggregate credit exposure for the six months ended 31 March 2019[3]		
Exceeds 10% and not 15%	**1**	**2**
Exceeds 15% and not 20%	-	-
Exceeds 20% and not 25%	-	**1**
Exceeds 25% and not 30%	-	-

[1] A counterparty is a bank counterparty if it is a bank that is not a member of a group of closely related counterparties or it is a group of closely related counterparties of which a bank is the parent.

[2] A counterparty is a non-bank counterparty if it is a non-bank that is not a member of a group of closely related counterparties or it is a group of closely related counterparties of which a bank is not the parent.

[3] There were no individual bank or non-bank counterparties with aggregate credit exposure that equals or exceeds 10% of the Banking Group's Common Equity Tier 1 capital and with a long-term credit rating of less than A- or A3, or its equivalent, or unrated.

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 six-month period, and then dividing that amount by the Banking Group's Common Equity Tier 1 capital as at 31 March 2019.

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 connected persons, to the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any supranational or quasi-sovereign agency 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 Banking Group and were calculated net of individually assessed provisions.

Registered bank disclosures

Unaudited

vi. Insurance business

The Banking Group does not conduct any insurance business (as that term is defined in the Order).

Conditions of registration

Conditions of registration

Non-compliance with conditions of registration

Since FY17, the Bank has been remediating various issues of non-compliance with condition of registration 1B in response to a notice issued by the Reserve Bank under section 95 of the Reserve Bank Act during FY17 (**'Section 95 Review'**). Condition of registration 1B requires the Bank to comply with the Reserve Bank Capital Adequacy Framework (Internal Models Based Approach) (**'BS2B'**).

The Bank accepts the findings of the Section 95 Review and is making good progress with remediating issues. The issues of non-compliance with BS2B that remained during the reporting period are disclosed below.

As disclosed in Note iv. of the Registered bank disclosures, the Bank considers its current internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk. Any effect of the non-compliance with condition of registration 1B on the information relating to capital adequacy disclosed in Note iv. of the Registered bank disclosures is not considered by the Bank to be material.

During the reporting period, the Bank was non-compliant with condition of registration 1B in relation to the following matters:

– It has continued to operate versions of various capital models which were not approved by the Reserve Bank, in some cases since December 2008. In addition to the unapproved models disclosed in the Bank's Disclosure Statement for the year ended 30 September 2018, the Bank has identified that it has also been using an unapproved PD model for certain corporate exposures.

– It failed to meet the Reserve Bank's requirements in relation to model documentation and associated model documentation policies. Since FY17 the Bank has been updating its model documentation and has been submitting models for approval by the Reserve Bank.

– The Bank's Model Compendium (**'Compendium'**) required under 1.3B of BS2B is not accurate as it does not include all models, has unapproved models and has not been updated to include changes in models. The Compendium will be updated once the Reserve Bank has delivered its determination on the models that have been submitted for approval.

– It is not fully compliant with paragraph 4.246 of BS2B in that, with the exception of wholesale property development and investment customers, non-retail risk grade credit policy overrides are not captured and monitored. A new system to capture relevant non-retail customer credit data is being built and will address this issue.

– It is not fully compliant with paragraph 4.248 of BS2B in that not all historical origination data for non-retail customers is maintained in a format that allows easy accessibility to key data used to derive the original risk rating. A new system to capture relevant non-retail customer credit data is being built and will address this issue.

During the first quarter of the reporting period, 1 October 2018 to 31 December 2018, the Bank was also non-compliant with condition of registration 1B in effect during that period in relation to the matters below. These matters do not result in non-compliance with the version of condition of registration 1B in effect from 1 January 2019.

– For less than one percent of its residential mortgages by loan value, its use of total committed exposure rather than EAD for calculating loan-to-value ratio (**'LVR'**) for capital adequacy purposes does not meet the minimum LGD requirements of paragraph 4.150 A of BS2B. Additionally, for less than 5% of accounts by number, the security value utilised within the calculation of LVR is an updated valuation and not the origination value as required by that paragraph.

– For a small number of corporate customers, certain committed credit facilities have been incorrectly recorded as uncommitted. This has been corrected and capital calculations adjusted accordingly. The aggregate amount is not assessed to be material.

– It is not fully compliant with 4.156 of BS2B in that an incorrect EAD factor of 100% (rather than the approved 20%) is used within the EAD calculations for the retail SME portfolio. This results in an over-statement of RWA.

– It is not fully compliant with 4.86-4.97 in that for some exposures where the maturity measure is missing, the default maturity applied is not a conservative measure. The amount is not assessed to be material.

The Bank has identified non-compliance with condition of registration 25, which requires compliance with the Reserve Bank Outsourcing Policy (**'BS11'**). The Bank renewed three existing outsourcing arrangements (as defined in BS11) for licensing and support of software applications (and related dedicated hardware for one application) and did not have in place the required risk mitigants for the arrangements as required by BS11. Work is underway to amend the outsourcing arrangements to include the requisite risk mitigants.

Conditions of registration

Conditions of registration (continued)

Changes to conditions of registration

On 20 December 2018, the Reserve Bank advised the Bank of changes to its conditions of registration. The following changes came into effect on 1 January 2019:

- 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 70 per cent (previously, the required LVR was 65 per cent);
- a limit of 20 percent (previously, the required limit was 15 per cent) on new non-residential property investment lending carried out in the measurement period where the LVR is greater than 80 per cent;
- refers to a revised version of "Framework for Restrictions on High-LVR Residential Mortgage Lending" (**'BS19'**), to make a minor amendment to the construction loan exemption related to Kiwibuild; and
- amended the capital adequacy conditions to narrow the scope so that the bank only has to meet the requirements of certain specified parts of BS2B, rather than the whole policy.

Independent auditor's review report

To the shareholder of Westpac New Zealand Limited

Report on the Disclosure Statement

We have reviewed pages 6 to 30 and pages 33 to 53 of the Disclosure Statement for the six months ended 31 March 2019 (the "Disclosure Statement") of Westpac New Zealand Limited (the "Bank") and the entities it controlled at 31 March 2019 or from time to time during the period (the "Banking Group"), which includes the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

The financial statements on pages 6 to 30 comprise the balance sheet as at 31 March 2019, 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 other explanatory information.

The supplementary information is included within notes 5 and 6 of the financial statements and notes ii to vi of the registered bank disclosures.

Directors' responsibility for the Disclosure Statement

The Directors of the Bank (the "Directors") are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is 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 the Bank, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 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:

- 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);
- the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements): 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, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements: 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 11 of the Order.

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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 Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

We are independent of the Banking Group. Our firm carries out other services for the Banking Group in the areas of other assurance services and agreed procedures relating to the issuance of comfort letters on debt issuance programmes and other regulatory and compliance matters. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the 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 (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 that is required to be disclosed under Schedules 5, 7, 13, 16 and 18 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 capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Emphasis of matter

Without modifying our conclusion, we draw attention to note iv of the registered bank disclosures and page 54 of the Disclosure Statement, which disclose certain matters of non-compliance with condition of registration 1B by the Bank. This includes the fact that the Bank continues to operate versions of certain internal models for credit risk that have not been approved by the Reserve Bank of New Zealand. However, the Bank considers its current internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk and any effect of the non-compliance with condition of registration 1B on the information relating to capital adequacy disclosed in note iv of the registered bank disclosures is not considered to be material.

Who we report to

This report is made solely to the Bank's shareholder. 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 the Bank and the Bank's shareholder, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 May 2019

Auckland