Westpac Banking Corporation - New Zealand Banking Group

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 (Overseas Incorporated Registered Banks) Order 2014 (as amended) (**'Order'**).

In this Disclosure Statement, reference is made to five main reporting groups:

- Westpac Banking Corporation (otherwise referred to as the **'Overseas Bank')** – refers to the worldwide business of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation Group (otherwise referred to as the **'Overseas Banking Group')** – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the **'NZ Branch'**) – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as **'Westpac New Zealand'**) – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations); and
- Westpac Banking Corporation – New Zealand Banking Group (otherwise referred to as the **'NZ Banking Group'**) – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement.

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

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

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believe, after due enquiry, that, over the six months ended 31 March 2019:

(a) the Overseas 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'**); and

(b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group, as defined in Westpac New Zealand's Disclosure Statement for the six months ended 31 March 2019.

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

David McLean

Karen Silk

Dated this 29th day of May 2019

Income statement for the six months ended 31 March 2019

$ millions	Note	NZ BANKING GROUP Six Months[1,2] Ended 31 Mar 19 Unaudited	 Six Months[2] Ended 31 Mar 18 Unaudited
Interest income	2	**2,097**	2,008
Interest expense	2	**(1,086)**	(1,065)
Net interest income		**1,011**	943
Net fees and commissions income	3	**102**	143
Net wealth management and insurance income	3	**96**	75
Trading income	3	**22**	43
Other income	3	**46**	10
Net operating income before operating expenses and impairment charges		**1,277**	1,214
Operating expenses		**(494)**	(473)
Impairment (charges)/benefits	4	**(14)**	(27)
Profit before income tax		**769**	714
Income tax expense		**(203)**	(201)
Net profit attributable to the owners of the NZ Banking Group		**566**	513

[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 NZ Banking Group has disaggregated the non-interest income line on the income statement into four separate lines for net fees and commissions income, net wealth management and insurance income, trading income and other income. The NZ 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

$ millions	NZ BANKING GROUP Six Months[1] Ended 31 Mar 19 Unaudited	 Six Months Ended 31 Mar 18 Unaudited
Net profit attributable to the owners of the NZ Banking Group	**566**	513
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	**(70)**	(18)
Transferred to income statement:		
Cash flow hedging instruments	**21**	32
Income tax on items taken to or transferred from equity:		
Available-for-sale securities reserve	**-**	(1)
Investment securities reserve	**2**	-
Cash flow hedge reserve	**14**	(4)
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)	**(47)**	9
Total comprehensive income attributable to the owners of the NZ Banking Group	**519**	522

[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

		NZ BANKING GROUP	
		31 Mar 19[1,2]	30 Sep 18[2]
$ millions	Note	Unaudited	Audited
Assets			
Cash and balances with central banks		**2,240**	1,472
Collateral paid		**513**	180
Trading securities and financial assets measured at fair value through income statement (FVIS)		**3,249**	3,016
Derivative financial instruments		**3,413**	3,509
Available-for-sale securities		**-**	3,810
Investment securities		**3,992**	-
Loans	5	**82,469**	80,860
Other financial assets		**736**	468
Life insurance assets		**295**	310
Due from related entities		**2,235**	2,023
Property and equipment		**136**	144
Deferred tax assets		**154**	127
Intangible assets		**673**	683
Other assets		**75**	54
Total assets		**100,180**	96,656
Liabilities			
Collateral received		**320**	591
Deposits and other borrowings	7	**65,114**	63,105
Other financial liabilities		**1,788**	1,622
Derivative financial instruments		**3,991**	3,569
Due to related entities		**2,397**	2,440
Debt issues	8	**14,976**	13,725
Current tax liabilities		**27**	111
Provisions		**110**	120
Other liabilities		**136**	124
Loan capital		**2,880**	2,866
Total liabilities		**91,739**	88,273
Net assets		**8,441**	8,383
Head office account			
Branch capital		**1,300**	1,300
Retained profits		**908**	869
Total head office account		**2,208**	2,169
NZ Banking Group equity			
Share capital		**143**	143
Reserves		**(94)**	(55)
Retained profits		**6,184**	6,126
Total NZ Banking Group equity		**6,233**	6,214
Total equity attributable to the owners of the NZ Banking Group		**8,441**	8,383

[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, other liabilities and other financial liabilities at fair value through profit or loss 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

	NZ BANKING GROUP							
	NZ BRANCH		OTHER MEMBERS OF THE NZ BANKING GROUP					
	Head Office Account			Reserves				
$ millions	Branch Capital	Retained Profits	Share Capital	Available-for-sale Securities Reserve	Investment Securities Reserve	Cash Flow Hedge Reserve	Retained Profits	Total Equity
As at 1 October 2017 (Audited)	1,300	740	143	9	-	(73)	5,712	7,831
Six months ended 31 March 2018 (Unaudited)								
Net profit attributable to the owners of the NZ Banking Group	-	43	-	-	-	-	470	513
Net gains/(losses) from changes in fair value	-	-	-	2	-	(18)	-	(16)
Income tax effect	-	-	-	(1)	-	5	-	4
Transferred to income statement	-	-	-	-	-	32	-	32
Income tax effect	-	-	-	-	-	(9)	-	(9)
Remeasurement of defined benefit obligations	-	-	-	-	-	-	(3)	(3)
Income tax effect	-	-	-	-	-	-	1	1
Total comprehensive income for the six months ended 31 March 2018	-	43	-	1	-	10	468	522
Transactions with owners:								
Dividends paid on ordinary shares	-	-	-	-	-	-	(72)	(72)
As at 31 March 2018 (Unaudited)	1,300	783	143	10	-	(63)	6,108	8,281
As at 30 September 2018 (Audited)	**1,300**	**869**	**143**	**9**	**-**	**(64)**	**6,126**	**8,383**
Impact on adoption of new accounting standards[1]	**-**	**-**	**-**	**(9)**	**9**	**-**	**(24)**	**(24)**
As at 1 October 2018 (Unaudited)	**1,300**	**869**	**143**	**-**	**9**	**(64)**	**6,102**	**8,359**
Six months ended 31 March 2019 (Unaudited)								
Net profit attributable to the owners of the NZ Banking Group	**-**	**39**	**-**	**-**	**-**	**-**	**527**	**566**
Net gains/(losses) from changes in fair value	**-**	**-**	**-**	**-**	**(6)**	**(70)**	**-**	**(76)**
Income tax effect	**-**	**-**	**-**	**-**	**2**	**20**	**-**	**22**
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	**-**	**39**	**-**	**-**	**(4)**	**(35)**	**519**	**519**
Transactions with owners:								
Dividends paid on ordinary shares (refer to Note 9)	**-**	**-**	**-**	**-**	**-**	**-**	**(437)**	**(437)**
As at 31 March 2019 (Unaudited)	**1,300**	**908**	**143**	**-**	**5**	**(99)**	**6,184**	**8,441**

[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

	NZ BANKING GROUP	
$ millions	**Six Months[1,2] Ended 31 Mar 19 Unaudited**	Six Months[2] Ended 31 Mar 18 Unaudited
Cash flows from operating activities		
Interest received	**2,091**	2,002
Interest paid	**(1,117)**	(1,120)
Non-interest income received	**224**	242
Operating expenses paid	**(464)**	(458)
Income tax paid	**(286)**	(254)
Cash flows from operating activities before changes in operating assets and liabilities	**448**	412
Net (increase)/decrease in:		
Collateral paid	**(333)**	158
Trading securities and financial assets measured at FVIS	**(141)**	507
Loans	**(1,618)**	(1,912)
Other financial assets	**1**	(22)
Due from related entities	**(125)**	1,112
Other assets	**(3)**	(4)
Net increase/(decrease) in:		
Collateral received	**(271)**	174
Deposits and other borrowings	**2,009**	3,185
Other financial liabilities	**220**	37
Due to related entities	**(2)**	(884)
Other liabilities	**5**	9
Net movement in external and related entity derivative financial instruments	**(186)**	(220)
Net cash provided by/(used in) operating activities	**4**	2,552
Cash flows from investing activities		
Proceeds from available-for-sale securities	**-**	499
Purchase of investment securities	**(1,535)**	-
Proceeds from investment securities	**1,363**	-
Net movement in life insurance assets	**15**	24
Proceeds from disposal of associates	**48**	-
Purchase of capitalised computer software	**(21)**	(30)
Purchase of property and equipment	**(16)**	(16)
Proceeds from disposal of property and equipment	**3**	-
Net cash provided by/(used in) investing activities	**(143)**	477
Cash flows from financing activities		
Net movement in due to related entities	**(23)**	(217)
Proceeds from debt issues	**1,721**	550
Repayments of debt issues	**-**	(2,615)
Dividends paid to ordinary shareholders	**(437)**	(72)
Net cash provided by/(used in) financing activities	**1,261**	(2,354)
Net increase/(decrease) in cash and cash equivalents	**1,122**	675
Cash and cash equivalents at beginning of the period	**1,529**	1,801
Cash and cash equivalents at end of the period	**2,651**	2,476
Cash and cash equivalents at end of the period comprise:		
Cash on hand	**290**	381
Balances with central banks	**1,950**	1,750
Interbank lending classified as cash and cash equivalents[3]	**411**	345
Cash and cash equivalents at end of the period	**2,651**	2,476

[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 NZ 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';
- removal of the balance sheet line 'other financial liabilities at fair value through income statement' and reclassification to '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. It includes initial and variation margin placed as security for derivative transactions.

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

	NZ BANKING GROUP		
	30 Sep 18		
$ millions	**Reported**	**Presentation changes**	**Restated**
Assets			
Receivables due from other financial institutions	**237**	**(237)**	**-**
Collateral paid	**-**	**180**	**180**
Other financial assets	**-**	**468**	**468**
Other assets	**465**	**(411)**	**54**
All other assets	**95,954**	**-**	**95,954**
Total assets	**96,656**	**-**	**96,656**
Liabilities			
Payables due to other financial institutions	**1,253**	**(1,253)**	**-**
Collateral received	**-**	**591**	**591**
Other financial liabilities at fair value through income statement	**223**	**(223)**	**-**
Other financial liabilities	**-**	**1,622**	**1,622**
Other liabilities	**861**	**(737)**	**124**
All other liabilities	**85,936**	**-**	**85,936**
Total liabilities	**88,273**	**-**	**88,273**

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 four separate lines for net fees and commissions income, net wealth management and insurance income, trading 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.

	NZ BANKING GROUP		
	Six months ended 31 Mar 18		
$ millions	**Reported**	**Presentation changes**	**Restated**
Income statement			
Net interest income	943	-	943
Non-interest income	285	(285)	-
Net fees and commissions income	-	143	143
Net wealth management and insurance income	-	75	75
Trading income	-	43	43
Other income	-	10	10
Net operating income before operating expenses and impairment charges	1,228	(14)	1,214
Operating expenses	(487)	14	(473)
Impairment (charges)/benefits	(27)	-	(27)
Profit before income tax	714	-	714
Income tax expense	(201)	-	(201)
Net profit attributable to the owners of the NZ Banking Group	513	-	513
Note 3: Non-interest income (extract)			
Net fees and commissions income			
Facility fees	30	-	30
Transaction fees and commissions	103	12	115
Other non-risk fee income	24	-	24
Fees and commissions income	157	12	169
Credit card loyalty programs	-	(14)	(14)
Transaction fee related expenses	-	(12)	(12)
Fees and commissions expenses	-	(26)	(26)
Net fees and commissions income	157	(14)	143

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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ Banking Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the NZ 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 NZ 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 NZ 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 NZ 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 NZ 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 NZ Banking Group has applied the option to continue hedge accounting under NZ IAS 39, however the NZ 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 NZ 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 NZ 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 NZ 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	28	9	-	-	37
1 October 2018 - NZ IFRS 9 carrying amount	352	43	-	-	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.

	NZ BANKING GROUP								
	30 Sep 18					1 Oct 2018			
	NZ IAS 39 measurement basis					NZ IFRS 9 measurement basis			
$ millions	Amortised cost	FVIS	FVOCI	Total	Change in measurement basis under NZ IFRS 9	Amortised cost	FVIS	FVOCI	Total
Financial assets									
Cash and balances with central banks	1,472	-	-	1,472	No	1,472	-	-	1,472
Collateral paid	180	-	-	180	No	180	-	-	180
Trading securities and financial assets measured at FVIS	-	3,016	-	3,016	No	-	3,016	-	3,016
Derivative financial instruments	-	3,509	-	3,509	No	-	3,509	-	3,509
Available-for-sale/Investment securities	-	-	3,810	3,810	No	-	-	3,810	3,810
Loans	80,860	-	-	80,860	No	80,860	-	-	80,860
Other financial assets	468	-	-	468	No	468	-	-	468
Life insurance assets		310	-	310	No	-	310	-	310
Due from related entities	1,564	459	-	2,023	No	1,564	459	-	2,023
Total financial assets	84,544	7,294	3,810	95,648		84,544	7,294	3,810	95,648
Financial liabilities									
Collateral received	591	-	-	591	No	591	-	-	591
Deposits and other borrowings	61,884	1,221	-	63,105	No	61,884	1,221	-	63,105
Other financial liabilities	1,399	223	-	1,622	No	1,399	223	-	1,622
Derivative financial instruments	-	3,569	-	3,569	No	-	3,569	-	3,569
Due to related entities	1,796	644	-	2,440	No	1,796	644	-	2,440
Debt issues	13,725	-	-	13,725	No	13,725	-	-	13,725
Loan capital	2,866	-	-	2,866	No	2,866	-	-	2,866
Total financial liabilities	82,261	5,657	-	87,918		82,261	5,657	-	87,918

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.

	NZ 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	1,472	-	-	-	1,472
Collateral paid	180	-	-	-	180
Trading securities and financial assets measured at FVIS	3,016	-	-	-	3,016
Derivative financial instruments	3,509	-	-	-	3,509
Available-for-sale securities	3,810	(3,810)	-	-	-
Investment securities	-	3,810	-	-	3,810
Loans	80,860	-	(28)	-	80,832
Other financial assets	468	-	-	-	468
Life insurance assets	310	-	-	-	310
Due from related entities	2,023	-	-	-	2,023
Property and equipment	144	-	-	-	144
Deferred tax assets	127	-	10	(1)	136
Intangible assets	683	-	-	-	683
Other assets	54	-	-	-	54
Total assets	96,656	-	(18)	(1)	96,637
Liabilities					
Collateral received	591	-	-	-	591
Deposits and other borrowings	63,105	-	-	-	63,105
Other financial liabilities	1,622	-	-	(4)	1,618
Derivative financial instruments	3,569	-	-	-	3,569
Due to related entities	2,440	-	-	-	2,440
Debt issues	13,725	-	-	-	13,725
Current tax liabilities	111	-	-	-	111
Provisions	120	-	9	-	129
Other liabilities	124	-	-	-	124
Loan capital	2,866	-	-	-	2,866
Total liabilities	88,273	-	9	(4)	88,278
Net assets	8,383	-	(27)	3	8,359
Head office account					
Branch capital	1,300	-	-	-	1,300
Retained profits	869	-	-	-	869
Total head office account	2,169	-	-	-	2,169
NZ Banking Group equity					
Share capital	143	-	-	-	143
Reserves	(55)	-	-	-	(55)
Retained profits	6,126	-	(27)	3	6,102
Total NZ Banking Group equity	6,214	-	(27)	3	6,190
Total equity attributable to the owners of the NZ Banking Group	8,383	-	(27)	3	8,359

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 10.

Notes to the financial statements

Note 2 Net interest income

	NZ 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	**4**	2
Available-for-sale securities	**-**	73
Investment securities	**78**	-
Loans	**1,947**	1,866
Due from related entities	**11**	11
Total interest income from financial assets measured at amortised cost or FVOCI	**2,052**	1,965
Other		
Trading securities and financial assets measured at FVIS	**42**	40
Due from related entities	**3**	3
Total other	**45**	43
Total interest income	**2,097**	2,008
Interest expense		
Financial liabilities measured at amortised cost		
Collateral received	**4**	3
Deposits and other borrowings	**664**	627
Due to related entities	**26**	25
Debt issues	**141**	145
Loan capital	**74**	72
Other interest expense	**3**	3
Total interest expense from financial liabilities measured at amortised cost	**912**	875
Other		
Deposits and other borrowings	**11**	8
Due to related entities	**3**	3
Debt issues	**4**	10
Other interest expense[3]	**156**	169
Total other	**174**	190
Total interest expense	**1,086**	1,065
Total net interest income	**1,011**	943

[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

	NZ 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	**94**	115
Other non-risk fee income	**13**	24
Fees and commissions income	**132**	169
Credit card loyalty programs	**(16)**	(14)
Transaction fee related expenses	**(14)**	(12)
Fees and commissions expenses	**(30)**	(26)
Net fees and commissions income	**102**	143
Net wealth management and insurance income		
Wealth management income	**27**	26
Net life insurance income and change in policy liabilities	**69**	49
Net wealth management and insurance income	**96**	75
Trading income	**22**	43
Other income		
Net ineffectiveness on qualifying hedges	**-**	4
Other non-interest income[3]	**46**	6
Total other income	**46**	10
Total non-interest income	**266**	271

[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:

	NZ 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	53	42	-	**(1)**	94
Other non-risk fee income	5	12	-	**(4)**	13
Fees and commissions income	**73**	**61**	**-**	**(2)**	132
Fees and commissions expenses	**(28)**	**-**	**-**	**(2)**	(30)
Net fees and commissions income	**45**	**61**	**-**	**(4)**	102
Six months ended 31 March 2018 (Unaudited)					
Fees and commissions income					
Facility fees	19	7	-	4	30
Transaction fees and commissions	52	37	-	26	115
Other non-risk fee income	8	14	-	2	24
Fees and commissions income	79	58	-	32	169
Fees and commissions expenses	(23)	-	-	(3)	(26)
Net fees and commissions income	56	58	-	29	143

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.

	NZ 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 NZ 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.

	NZ 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

	NZ BANKING GROUP	
$ millions	**31 Mar 19[1,2] Unaudited**	30 Sep 18[2] Audited
Residential mortgages	**49,584**	48,893
Other retail	**3,807**	3,928
Corporate	**29,344**	28,085
Other	**94**	278
Total gross loans	**82,829**	81,184
Provisions for ECL/provisions for impairment charges on loans	**(360)**	(324)
Total net loans	**82,469**	80,860

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

[2] The NZ Banking Group has changed the presentation of loan categories for consistency with the types of credit exposures defined in the Reserve Bank Capital Adequacy Framework (Internal Models Based Approach) (**'BS2B'**). 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 NZ Banking Group to secure the obligations of Westpac Securities NZ Limited (**'WSNZL'**) under Westpac New Zealand's Global Covered Bond Programme (**'CB Programme'**) (30 September 2018: $7,533 million). These pledged assets were not derecognised from the NZ Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 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.

	NZ 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	176	100			360
Provision for ECL on credit commitments	19	19	1			39
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.

	NZ BANKING GROUP			
	Unaudited			
	Performing		Non-performing	
$ millions	Stage 1	Stage 2	Stage 3	Total
Total gross carrying amount at the beginning of the period	76,946	3,775	463	81,184
Net transfers in/(out) of stages	(434)	292	142	-
Net further lending/repayment	(400)	181	(33)	(252)
New financial assets originated	6,682	-	-	6,682
Financial assets derecognised during the period	(4,410)	(293)	(58)	(4,761)
Amounts written-off	-	-	(24)	(24)
Total gross carrying amount as at 31 March 2019	78,384	3,955	490	82,829
Provision for ECL as at 31 March 2019	(84)	(176)	(100)	(360)
Total net carrying amount as at 31 March 2019	78,300	3,779	390	82,469

Notes to the financial statements

Note 6 Provisions for expected credit losses (continued)

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.

	NZ 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

Note 7 Deposits and other borrowings

	NZ 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**	32,649
Total deposits and other borrowings	**65,114**	63,105

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.

Notes to the financial statements

Note 8 Debt issues

	NZ 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 NZ Banking Group are set out in Note 25 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, $370 million of dividends were declared and paid by the following entity:

- Westpac New Zealand Group Limited declared and paid a dividend of $370 million to Westpac Overseas Holdings No. 2 Pty Limited.

On 20 March 2019, $67 million of dividends were declared and paid by the following entities:

- Westpac Group Investment-NZ-Limited declared and paid a dividend of $4 million pro-rata to the shareholders, Westpac Overseas Holdings Pty Limited and Westpac Custodian Nominees Pty Limited;
- BT Financial Group (NZ) Limited declared and paid a dividend of $25 million to Westpac Equity Holdings Pty Limited; and
- Westpac Financial Services Group-NZ- Limited declared and paid a dividend of $38 million to Westpac Equity Holdings Pty Limited.

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.

Note 10 Fair value of financial assets and liabilities

Fair Valuation Control Framework

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

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

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

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

Fair value hierarchy

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement. The NZ Banking Group categorises all fair value instruments according to the hierarchy described as follows.

Valuation techniques

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

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined 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
Exchange traded products	Derivative financial instruments Due from related entities Due to related entities	Exchange traded interest rate futures - derivative financial instruments	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
Foreign exchange products	Derivative financial instruments	FX spot contracts	
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Available-for-sale securities/Investment securities Other financial liabilities	New Zealand Government bonds	

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

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.

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps, and options – derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers. 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 and FX forward contracts – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Asset backed debt instruments	Trading securities and financial assets measured at FVIS Available-for-sale securities/Investment securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available, these are classified as Level 3 instruments.
Non-asset backed debt instruments	Trading securities and financial assets measured at FVIS Available-for-sale securities/Investment securities Other financial liabilities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities with third parties	Valued using observable market prices which are sourced from 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 applicable credit rating of Westpac New Zealand.
Life insurance assets	Life insurance assets	Local authority securities, investment grade corporate bonds, life insurance contract liabilities and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

Notes to the financial statements

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

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions.

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

Instrument	Balance sheet category	Includes:	Valuation
Interest rate derivatives	Derivative financial instruments	Non-vanilla interest rate (inflation indexed) derivatives and long-dated NZD caps	Valued using industry standard valuation models utilising observable market inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

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

	NZ BANKING GROUP			
		31 Mar 19	Unaudited[1]	
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Trading securities and financial assets measured at FVIS	99	3,150	-	3,249
Derivative financial instruments	-	3,413	-	3,413
Investment securities	1,053	2,939	-	3,992
Life insurance assets	-	295	-	295
Due from related entities	1	539	-	540
Total financial assets measured at fair value	**1,153**	**10,336**	**-**	**11,489**
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	896	-	896
Other financial liabilities	106	93	-	199
Derivative financial instruments	-	3,972	19	3,991
Due to related entities	1	636	-	637
Debt issues at fair value	-	443	-	443
Total financial liabilities measured at fair value	**107**	**6,040**	**19**	**6,166**

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

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

	NZ BANKING GROUP			
	30 Sep 18 Audited			
$ millions	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Trading securities and financial assets measured at FVIS	159	2,857	-	3,016
Derivative financial instruments	-	3,509	-	3,509
Available-for-sale securities	1,167	2,643	-	3,810
Life insurance assets	-	310	-	310
Due from related entities	1	458	-	459
Total financial assets measured at fair value	1,327	9,777	-	11,104
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	1,221	-	1,221
Other financial liabilities at fair value	145	78	-	223
Derivative financial instruments	-	3,569	-	3,569
Due to related entities	2	642	-	644
Total financial liabilities measured at fair value	147	5,510	-	5,657

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the six months ended 31 March 2019 (30 September 2018: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

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

Financial instruments not measured at fair value

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

	NZ BANKING GROUP			
	31 Mar 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	**2,240**	**2,240**	1,472	1,472
Collateral paid	**513**	**513**	180	180
Loans	**82,469**	**82,614**	80,860	80,989
Other financial assets	**736**	**736**	468	468
Due from related entities	**1,695**	**1,695**	1,564	1,564
Total financial assets not measured at fair value	**87,653**	**87,798**	84,544	84,673
Financial liabilities not measured at fair value				
Collateral received	**320**	**320**	591	591
Deposits and other borrowings	**64,218**	**64,262**	61,884	61,923
Other financial liabilities	**1,589**	**1,589**	1,399	1,399
Due to related entities	**1,760**	**1,769**	1,796	1,806
Debt issues[3]	**14,533**	**14,658**	13,725	13,845
Loan capital[3]	**2,880**	**2,775**	2,866	2,872
Total financial liabilities not measured at fair value	**85,300**	**85,373**	82,261	82,436

[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 NZ 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 27 of the financial statements included in the Disclosure Statement for the year ended 30 September 2018.

Notes to the financial statements

Note 11 Credit related commitments, contingent assets and contingent liabilities

	NZ BANKING GROUP	
	31 Mar 19	30 Sep 18
$ millions	**Unaudited**	Audited
Letters of credit and guarantees	**1,012**	1,104
Commitments to extend credit	**24,916**	24,722
Other	**-**	60
Total undrawn credit commitments	**25,928**	25,886

Contingent assets

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

Contingent liabilities

The NZ Banking Group has contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision has been made in these financial statements where appropriate.

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

Note 12 Segment reporting

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

The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on a cost recovery basis.

The NZ Banking Group does not rely on any single major customer for its revenue base.

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: NZ 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: NZ 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.

The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

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

Notes to the financial statements

Note 12 Segment reporting (continued)

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/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the aggregated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the aggregated financial statements of the NZ Banking Group for statutory financial reporting purposes.

	NZ BANKING GROUP				
$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
Six months ended 31 March 2019 (Unaudited)					
Net interest income	**578**	**417**	**-**	**16**	**1,011**
Non-interest income	**71**	**105**	**73**	**17**	**266**
Net operating income before operating expenses and impairment charges	**649**	**522**	**73**	**33**	**1,277**
Operating expenses	**(349)**	**(130)**	**(15)**	**-**	**(494)**
Impairment (charges)/benefits	**(19)**	**5**	**-**	**-**	**(14)**
Profit before income tax	**281**	**397**	**58**	**33**	**769**
Six months ended 31 March 2018 (Unaudited) (restated)					
Net interest income	581	388	-	(26)	943
Non-interest income	84	113	69	5	271
Net operating income before operating expenses and impairment charges	665	501	69	(21)	1,214
Operating expenses	(332)	(125)	(15)	(1)	(473)
Impairment (charges)/benefits	(35)	(4)	-	12	(27)
Profit before income tax	298	372	54	(10)	714
As at 31 March 2019 (Unaudited)					
Total gross loans	**47,118**	**35,646**	**-**	**65**	**82,829**
Total deposits and other borrowings	**37,024**	**27,194**	**-**	**896**	**65,114**
As at 30 September 2018 (Audited)					
Total gross loans	46,605	34,550	-	29	81,184
Total deposits and other borrowings	36,147	25,737	-	1,221	63,105

Registered bank disclosures

Unaudited

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

i. General information

Limits on material financial support by the Overseas Bank

On 19 November 2015, the Australian Prudential Regulation Authority (**'APRA'**) informed the Overseas Bank that its Extended Licensed Entity (**'ELE'**) non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of 5% of the Overseas Bank's Level 1 Tier 1 capital, as part of an initiative to reduce Australian bank non-equity exposure to their respective New Zealand banking subsidiaries and branches.

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the 5% limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 31 March 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 Overseas Bank.

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

Guarantee arrangements

No material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed as at the date the Directors and the Chief Executive Officer, NZ Branch signed this Disclosure Statement.

Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:
Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD – Chairman
Brian Charles Hartzer, BA, CFA – Managing Director & Chief Executive Officer
Nerida Frances Caesar, BCom, MBA, GAICD
Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD
Catriona Alison Deans, BA, MBA, GAICD
Craig William Dunn, BCom, FCA
Yuen Mei Anita Fung, BSocSc, MAppFin
Steven John Harker, BEc (Hons.), LLB
Peter Ralph Marriott, BEc (Hons.), FCA
Peter Stanley Nash, BCom, FCA, F Fin
Margaret Leone Seale, BA, FAICD

Changes to Directorate

Yuen Mei Anita Fung was appointed as a director effective 1 October 2018. Peter John Oswin Hawkins ceased to be a director on 12 December 2018. Steven John Harker and Margaret Leone Seale were each appointed as a director effective from 1 March 2019.

Chief Executive Officer, NZ Branch

Karen Lee Silk, B.Com

i. General information (continued)

Responsible person

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

Auditor

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date the Directors and the Chief Executive Officer, NZ Branch signed this Disclosure Statement:

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

Other material matters

Certain matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group have been disclosed on the New Zealand and/or Australian stock exchanges.

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. Westpac New Zealand 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 Westpac New Zealand. 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.

Registered bank disclosures

Unaudited

i. General information (continued)

Other material matters (continued)

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). Westpac New Zealand is already strongly capitalised with a Tier 1 capital ratio of 14.5% at 31 March 2019.

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

Disclosure Statements of the NZ Banking Group for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2018 and for the six months ended 31 March 2019, respectively, and can be accessed at the internet address www.westpac.com.au.

ii. Additional financial disclosures

Additional information on balance sheet

$ millions	NZ BANKING GROUP 31 Mar 19 Unaudited	30 Sep 18 Audited
Interest earning and discount bearing assets	**94,544**	91,003
Interest and discount bearing liabilities	**79,798**	76,948
Total amounts due from related entities	**2,235**	2,023
Total amounts due to related entities	**3,484**	3,575
Total liabilities of the Branch, net of amounts due to related entities	**6,889**	6,311
Total retail deposits of the Branch	**-**	3

Financial assets pledged as collateral

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

$ millions	NZ BANKING GROUP 31 Mar 19 Unaudited	30 Sep 18 Audited
Cash	**513**	180
Securities pledged under repurchase agreements:		
Trading securities and financial assets measured at FVIS	**75**	41
Total amount pledged to secure liabilities (excluding CB Programme)	**588**	221

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Additional information on concentrations of credit risk

	NZ BANKING GROUP
$ millions	31 Mar 19
On-balance sheet credit exposures consist of	
Cash and balances with central banks	**2,240**
Collateral paid	**513**
Trading securities and financial assets measured at FVIS	**3,249**
Derivative financial instruments	**3,413**
Investment securities	**3,992**
Loans	**82,469**
Other financial assets	**736**
Life insurance assets	**7**
Due from related entities	**2,235**
Total on-balance sheet credit exposures	**98,854**
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**433**
Agriculture	**8,666**
Construction	**584**
Finance and insurance	**9,179**
Forestry and fishing	**451**
Government, administration and defence	**7,402**
Manufacturing	**2,570**
Mining	**176**
Property	**6,934**
Property services and business services	**1,380**
Services	**2,132**
Trade	**2,396**
Transport and storage	**1,243**
Utilities	**1,981**
Retail lending	**51,361**
Other	**2**
Subtotal	**96,890**
Provisions for impairment charges on loans	**(360)**
Due from related entities	**2,235**
Other financial assets	**89**
Total on-balance sheet credit exposures	**98,854**
Off-balance sheet credit exposures consists of	
Credit risk-related instruments	**25,928**
Total off-balance sheet credit exposures	**25,928**
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	**106**
Agriculture	**596**
Construction	**499**
Finance and insurance	**1,557**
Forestry and fishing	**152**
Government, administration and defence	**774**
Manufacturing	**1,525**
Mining	**164**
Property	**1,480**
Property services and business services	**598**
Services	**679**
Trade	**1,897**
Transport and storage	**846**
Utilities	**1,732**
Retail lending	**13,323**
Total off-balance sheet credit exposures	**25,928**

Australia 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

	NZ BANKING GROUP
$ millions	31 Mar 19
Funding consists of	
Collateral received	320
Deposits and other borrowings	65,114
Other financial liabilities[1]	1,190
Due to related entities[2]	1,752
Debt issues[3]	14,976
Loan capital	2,880
Total funding	86,232
Analysis of funding by geographical area[3]	
New Zealand	64,081
Australia	2,876
United Kingdom	9,240
United States of America	2,773
Other	7,262
Total funding	86,232
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	364
Agriculture	1,444
Construction	1,777
Finance and insurance	33,268
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]	4,285
Subtotal	84,480
Due to related entities[2]	1,752
Total funding	86,232

[1] Other financial liabilities, as presented above, are in respect of securities sold under agreements to repurchase, securities sold short and interbank placements.
[2] 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.
[3] 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.
[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 NZ Banking Group's net asset position as at 31 March 2019. The NZ Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

	NZ BANKING GROUP						
	31 Mar 19						
$ millions	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	1,951	-	-	-	-	289	2,240
Collateral paid	513	-	-	-	-	-	513
Trading securities and other financial assets measured at FVIS	1,896	694	184	110	365	-	3,249
Derivative financial instruments	-	-	-	-	-	3,413	3,413
Investment securities	-	-	753	1,412	1,827	-	3,992
Loans	44,123	5,906	13,712	14,793	4,195	(260)	82,469
Other financial assets	411	-	-	-	-	325	736
Life insurance assets	4	3	-	-	-	288	295
Due from related entities	1,692	-	-	-	-	543	2,235
Total financial assets	50,590	6,603	14,649	16,315	6,387	4,598	99,142
Non-financial assets							1,038
Total assets							100,180
Financial liabilities							
Collateral received	320	-	-	-	-	-	320
Deposits and other borrowings	40,352	8,779	7,751	1,167	687	6,378	65,114
Other financial liabilities	1,160	-	-	-	-	628	1,788
Derivative financial instruments	-	-	-	-	-	3,991	3,991
Due to related entities	1,726	-	-	-	-	671	2,397
Debt issues	6,112	235	101	1,800	6,728	-	14,976
Loan capital	1,087	-	-	-	1,793	-	2,880
Total financial liabilities	50,757	9,014	7,852	2,967	9,208	11,668	91,466
Non-financial liabilities							273
Total liabilities							91,739
On-balance sheet interest rate repricing	(167)	(2,411)	6,797	13,348	(2,821)		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	15,478	(5,058)	(9,186)	(11,562)	10,328		
Net interest rate repricing gap	15,311	(7,469)	(2,389)	1,786	7,507		

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 NZ Banking Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with these financial liabilities include both principal payments, as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivative 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 NZ Banking Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the table below.

	NZ 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 Year and Up to 5 Years	Over 5 Years	Total
Financial liabilities							
Collateral received	-	320	-	-	-	-	320
Deposits and other borrowings	29,689	5,799	11,461	16,931	1,977	-	65,857
Other financial liabilities	1,080	386	1	-	-	-	1,467
Derivative financial instruments:							
Held for trading	3,340	-	-	-	-	-	3,340
Held for hedging purposes (net settled)	-	36	78	109	219	35	477
Held for hedging purposes (gross settled):							
Cash outflow	-	11	12	66	3,065	-	3,154
Cash inflow	-	-	-	(22)	(2,734)	-	(2,756)
Due to related entities:							
Non-derivative balances	1,462	-	3	7	307	-	1,779
Derivative financial instruments:							
Held for trading	517	-	-	-	-	-	517
Held for hedging purposes (gross settled):							
Cash outflow	-	-	18	50	1,559	-	1,627
Cash inflow	-	-	(16)	(44)	(1,440)	-	(1,500)
Debt issues	-	10	1,612	3,165	10,328	402	15,517
Loan capital	-	-	13	36	184	3,022	3,255
Total undiscounted financial liabilities	**36,088**	**6,562**	**13,182**	**20,298**	**13,465**	**3,459**	**93,054**
Total contingent liabilities and commitments							
Letters of credit and guarantees	1,012	-	-	-	-	-	1,012
Commitments to extend credit	24,916	-	-	-	-	-	24,916
Total undiscounted contingent liabilities and commitments	**25,928**	-	-	-	-	-	**25,928**

Registered bank disclosures

Unaudited

ii. Additional financial disclosures (continued)

Liquid assets

The table below shows the NZ Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

	NZ BANKING GROUP
$ millions	**31 Mar 19**
Cash and balances with central banks	**2,240**
Interbank lending	**411**
Supranational securities	**1,652**
NZ Government securities	**1,189**
NZ public securities	**1,862**
NZ corporate securities	**1,873**
Residential mortgage-backed securities	**3,950**
Total liquid assets	**13,177**

Overseas Banking Group profitability and size

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2019.

Profitability	**31 Mar 19**
Net profit after tax for the six months ended 31 March 2019 (A$ millions)[1]	**3,176**
Net profit after tax for the 12 month period to 31 March 2019 as a percentage of average total assets	**0.8%**

Total assets and equity	**31 Mar 19**
Total assets (A$ millions)	**891,062**
Percentage change in total assets over the 12 months ended 31 March 2019	**2.2%**
Total equity (A$ millions)	**63,935**

[1] Net profit after tax represents the amount before deductions for net profit attributable to non-controlling interests.

Reconciliation of mortgage-related amounts

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

	NZ BANKING GROUP
$ millions	**31 Mar 19**
Residential mortgages - total gross loans (as disclosed in Note 5)	**49,584**
Reconciling items:	
Unamortised deferred fees and expenses	**(169)**
Fair value hedge adjustments	**(65)**
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**

[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

	NZ BANKING GROUP
$ millions	**31 Mar 19**
Past due but not individually impaired assets	
Less than 30 days past due	**1,067**
At least 30 days but less than 60 days past due	**136**
At least 60 days but less than 90 days past due	**50**
At least 90 days past due	**10**
Total past due but not individually impaired assets	**1,263**

Movements in components of loss allowance and impacts of changes in gross financial assets on loss allowances

Refer to Note 6 for the movements in components of loss allowance and impacts of changes in gross financial assets on loss allowances.

Other asset quality information

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

Overseas Banking Group asset quality

Information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2019.

	31 Mar 19
Total non-performing assets[1, 2] (A$ millions)	**6,271**
Total non-performing assets expressed as a percentage of total assets	**0.7%**
Total provision for ECL on non-performing assets (A$ millions)[3]	**1,358**
Total provision for ECL on non-performing assets expressed as a percentage of total non-performing assets	**21.7%**
Total provision for ECL on performing assets (A$ millions)[4]	**2,637**

[1] Total non-performing assets are before allowances for ECL and net of interest held in suspense. The term “non-performing assets” is used interchangeably with “impaired assets” for the purposes of the Order.

[2] Non-financial assets have not been acquired through the enforcement of security.

[3] Includes provisions for ECL on loans and credit commitments.

[4] Includes provisions for ECL on loans, credit commitments and debt securities.

iv. Credit and market risk exposures and capital adequacy

Additional mortgage information

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2019

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

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

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

	NZ BANKING GROUP					
	31 Mar 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**

Market risk

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital Adequacy Framework (Standardised Approach) (BS2A)'(**'BS2A'**) and is calculated on a six monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the NZ Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2019 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2A.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the six months ended 31 March 2019:

	NZ BANKING GROUP	
	31 Mar 19	
$ millions	Implied risk-weighted exposure	Notional capital charge
End-of-period		
Interest rate risk	3,418	273
Foreign currency risk	30	2
Equity risk	-	-
Peak end-of-day		
Interest rate risk	5,244	420
Foreign currency risk	33	3
Equity risk	-	-

iv. Credit and market risk exposures and capital adequacy (continued)

Overseas Bank and Overseas Banking Group capital adequacy

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank as at 31 March 2019 based on the Australian Prudential Regulation Authority's (**'APRA'**) application of the Basel III capital adequacy framework.

%	31 Mar 19	31 Mar 18
Overseas Banking 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
Overseas 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 Overseas Banking Group are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au).

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

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

Under APRA's Prudential Standards, Australian authorised deposit taking institutions (**'ADI'**), including the Overseas Banking Group are required to maintain minimum ratios of capital to RWA, as determined by APRA. For the calculation of RWAs, the Overseas Banking Group is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group uses the Advanced Internal Ratings Based (**'Advanced IRB'**) approach for credit risk, the Advanced Measurement Approach (**'AMA'**) for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital. APRA's prudential standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision (**'BCBS'**), except where APRA has exercised certain discretions.

The Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly basis. This information is made available to users via the Overseas Banking Group's website (www.westpac.com.au).

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

v. Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited, calculated in accordance with the Overseas Bank's (the registered bank) conditions of registration as at the reporting date.

	NZ BANKING GROUP
$ millions	**31 Mar 19**
Total assets of insurance business	**197**
As a percentage of total consolidated assets of the NZ Banking Group	**0.20%**

Conditions of registration

Conditions of registration

Westpac New Zealand conditions of registration

In February 2017 the Reserve Bank required Westpac New Zealand to obtain an independent review of its compliance with advanced internal rating-based aspects of the Reserve Bank's Capital Adequacy Framework (Internal Models Based Approach)(**'BS2B'**). Following the independent review, the Reserve Bank increased the minimum total capital ratio, tier 1 capital ratio and common equity tier 1 capital ratio for Westpac New Zealand and its controlled entities to above 15.1%. As at 31 March 2019, the total capital ratio for Westpac New Zealand and its controlled entities is 16.5%. Westpac New Zealand is making good progress with remediating the non-compliance issues.

Westpac New Zealand has disclosed matters of non-compliance with BS2B (compliance with which is a condition of registration for Westpac New Zealand) in its Disclosure Statements since September 2016. In particular, Westpac New Zealand has disclosed that when calculating LVRs for less than one percent of its residential mortgages by loan value, Westpac New Zealand uses total committed exposure rather than EAD for capital adequacy purposes and for less than 5% of accounts by number, it uses an updated calculation of the security value and not the origination value. These limitations on Westpac New Zealand's LVR calculations are reflected in the LVR values disclosed by the NZ Banking Group in Registered Bank Disclosures Section iv.

Westpac New Zealand has also disclosed non-compliance with its condition of registration 25 relating to the Reserve Bank's BS11: Outsourcing Policy in its disclosure statement for the six months ended 31 March 2019.

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

Changes to conditions of registration

On 20 December 2018, the Reserve Bank advised the Overseas 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; and
- 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.

Independent auditor's review report

To the Directors of Westpac Banking Corporation

Report on the Disclosure Statement

We have reviewed pages 5 to 29 and pages 32 to 40 of the Disclosure Statement for the six months ended 31 March 2019 (the "Disclosure Statement") of Westpac Banking Corporation, which includes the financial statements of Westpac Banking Corporation – New Zealand Banking Group ("NZ Banking Group") required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The NZ Banking Group comprises the New Zealand operations of Westpac Banking Corporation.

The financial statements on pages 5 to 29 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 3, 5 and 6 of the financial statements and notes ii to v of the registered bank disclosures.

Directors' responsibility for the Disclosure Statement

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

Our responsibility

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

- 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 credit and market risk exposures and capital adequacy): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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

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

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

Conclusion

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

a) the financial statements (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, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Who we report to

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Westpac Banking Corporation and the Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
29 May 2019