

Westpac New Zealand Limited

Disclosure Statement

For the three months ended 31 December 2014



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General information and definitions

Certain information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 ('**Order**').

In this Disclosure Statement, reference is made to:

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

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

Directors

David Alexander McLean was appointed as a Director of the Bank on 2 February 2015. There have been no other changes in the composition of the Board of Directors of the Bank (the '**Board**') since 30 September 2014.

Credit ratings

The Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date this Disclosure Statement was signed:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa3	Stable
Standard & Poor's	AA-	Stable

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Guarantee arrangements

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

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration at the date of this Disclosure Statement involving any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Banking Group or the Bank.

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. The Bank is the defendant in proceedings filed on 20 August 2014 by the plaintiff group. Proceedings have also been filed against three other banks. At this stage the impact of the proceedings cannot be determined with any certainty.

On 12 December 2013, the Commerce Commission notified Westpac Banking Corporation and the Bank that it intended filing proceedings against them under the Fair Trading Act 1986 in relation to the marketing and sale of interest rate swaps to rural customers. Westpac Banking Corporation and the Bank entered into a settlement agreement with the Commerce Commission on 30 January 2015.

The contingent liabilities of the Banking Group are set out in Note 11 Commitments and contingent liabilities.

Conditions of registration

The Bank's conditions of registration were amended with effect from 1 October 2014. The amendments refer to updated Reserve Bank documents including the 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)'. BS2B includes a new requirement for banks which use internal models to maintain a compendium of approved models with the Reserve Bank.

Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

- (a) contains all information that is required by the Order; and
- (b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the three months ended 31 December 2014:

- (a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;
- (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:



Peter David Wilson



David Alexander McLean



Malcolm Guy Bailey



Philip Matthew Coffey



Janice Amelia Dawson



Christopher John David Moller

Dated this 18th day of February 2015



Consolidated income statement for the three months ended 31 December 2014

\$ millions	Note	The Banking Group		
		Three Months Ended 31-Dec-14 Unaudited	Three Months Ended 31-Dec-13 Unaudited	Year Ended 30-Sep-14 Audited
Interest income		1,099	955	3,979
Interest expense		(659)	(555)	(2,339)
Net interest income		440	400	1,640
Non-interest income	2	101	147	480
Net operating income		541	547	2,120
Operating expenses		(214)	(209)	(817)
Impairment charges on loans	3	(19)	(13)	(26)
Operating profit		308	325	1,277
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		308	325	1,278
Income tax expense		(86)	(78)	(337)
Profit after income tax expense		222	247	941
Profit after income tax expense attributable to:				
Owners of the Banking Group		221	246	938
Non-controlling interests		1	1	3
		222	247	941

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the three months ended 31 December 2014

\$ millions	The Banking Group		
	Three Months Ended 31-Dec-14 Unaudited	Three Months Ended 31-Dec-13 Unaudited	Year Ended 30-Sep-14 Audited
Profit after income tax expense	222	247	941
Other comprehensive expense which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	-	36	24
Transferred to the income statement (refer to Note 2)	-	(48)	(88)
Exchange differences	-	1	(3)
Income tax effect	-	(6)	(4)
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	(51)	25	(58)
Transferred to the income statement	4	(8)	32
Income tax effect	13	(5)	7
Total other comprehensive expense which may be reclassified subsequently to the income statement	(34)	(5)	(90)
Other comprehensive income which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	-	-	4
Income tax effect	-	-	(1)
Total other comprehensive income which will not be reclassified subsequently to the income statement	-	-	3
Total other comprehensive expense, net of tax	(34)	(5)	(87)
Total comprehensive income	188	242	854
Total comprehensive income attributable to:			
Owners of the Banking Group	187	241	851
Non-controlling interests	1	1	3
	188	242	854

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.



Consolidated statement of changes in equity for the three months ended 31 December 2014

\$ millions	The Banking Group						Total Equity
	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total before Non-controlling Interests	Non-controlling Interests	
As at 1 October 2013 (Audited)	4,600	1,831	106	36	6,573	6	6,579
Three months ended 31 December 2013 (Unaudited)							
Profit after income tax expense	-	246	-	-	246	1	247
Net gains from changes in fair value	-	-	36	25	61	-	61
Income tax effect	-	-	(6)	(7)	(13)	-	(13)
Exchange differences	-	-	1	-	1	-	1
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(48)	(8)	(56)	-	(56)
Income tax effect	-	-	-	2	2	-	2
Total comprehensive income for the three months ended 31 December 2013	-	246	(17)	12	241	1	242
Transactions with owners:							
Dividends paid on ordinary shares	-	(375)	-	-	(375)	-	(375)
As at 31 December 2013 (Unaudited)	4,600	1,702	89	48	6,439	7	6,446
Year ended 30 September 2014 (Audited)							
Profit after income tax expense	-	938	-	-	938	3	941
Net gains /(losses) from changes in fair value	-	-	24	(58)	(34)	-	(34)
Income tax effect	-	-	(4)	16	12	-	12
Exchange differences	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(88)	32	(56)	-	(56)
Income tax effect	-	-	-	(9)	(9)	-	(9)
Remeasurement of employee defined benefit obligations	-	4	-	-	4	-	4
Income tax effect	-	(1)	-	-	(1)	-	(1)
Total comprehensive income for the year ended 30 September 2014	-	941	(71)	(19)	851	3	854
Transactions with owners:							
Share capital repurchased	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	(375)	-	-	(375)	(3)	(378)
As at 30 September 2014 (Audited)	4,150	2,397	35	17	6,599	6	6,605
Three months ended 31 December 2014 (Unaudited)							
Profit after income tax expense	-	221	-	-	221	1	222
Net losses from changes in fair value	-	-	-	(51)	(51)	-	(51)
Income tax effect	-	-	-	14	14	-	14
Transferred to the income statement	-	-	-	4	4	-	4
Income tax effect	-	-	-	(1)	(1)	-	(1)
Total comprehensive income for the three months ended 31 December 2014	-	221	-	(34)	187	1	188
Transactions with owners:							
Share capital repurchased (refer to Note 9)	(450)	-	-	-	(450)	-	(450)
As at 31 December 2014 (Unaudited)	3,700	2,618	35	(17)	6,336	7	6,343

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 December 2014

\$ millions	Note	The Banking Group		
		31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Assets				
Cash and balances with central banks		1,998	1,459	1,903
Due from other financial institutions		476	364	553
Trading securities	4	2,370	2,204	1,216
Derivative financial instruments		18	14	73
Available-for-sale securities		3,091	2,724	3,010
Loans	5, 6	65,665	62,374	64,582
Due from related entities		1,959	2,138	1,852
Investment in associate		48	48	48
Property, plant and equipment		172	165	178
Deferred tax assets		164	156	144
Goodwill and other intangible assets		661	670	662
Other assets		239	272	228
Total assets		76,861	72,588	74,449
Liabilities				
Due to other financial institutions		157	3	201
Deposits	7	53,134	48,901	50,570
Trading liabilities		71	-	90
Derivative financial instruments		375	77	186
Debt issues	8	12,714	13,042	12,592
Current tax liabilities		65	35	45
Due to related entities		3,385	3,453	3,437
Provisions		61	68	76
Other liabilities		556	563	647
Total liabilities		70,518	66,142	67,844
Net assets		6,343	6,446	6,605
Equity				
Share capital		3,700	4,600	4,150
Retained profits		2,618	1,702	2,397
Available-for-sale securities reserve		35	89	35
Cash flow hedge reserve		(17)	48	17
Total equity attributable to owners of the Banking Group		6,336	6,439	6,599
Non-controlling interests		7	7	6
Total equity		6,343	6,446	6,605
Interest earning and discount bearing assets		75,479	71,145	72,893
Interest and discount bearing liabilities		65,123	61,261	62,989

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the three months ended 31 December 2014

	The Banking Group		
	Three Months Ended 31-Dec-14 Unaudited	Three Months Ended 31-Dec-13 Unaudited ¹	Year Ended 30-Sep-14 Audited
\$ millions			
Cash flows from operating activities			
Interest income received	1,097	959	3,965
Interest expense paid	(598)	(490)	(2,340)
Non-interest income received	97	92	389
Operating expenses paid	(246)	(238)	(722)
Income tax paid	(73)	(52)	(274)
Cash flows from operating activities before changes in operating assets and liabilities	277	271	1,018
Net (increase)/decrease in:			
Due from other financial institutions	(119)	109	11
Trading securities	(1,267)	(613)	488
Loans	(1,102)	(830)	(3,051)
Due from related entities	(332)	(543)	(34)
Net increase/(decrease) in:			
Due to other financial institutions	(44)	(97)	101
Deposits	2,564	719	2,388
Trading liabilities	(19)	-	90
Net movement in external and related entity derivative financial instruments	212	(86)	(495)
Net cash provided by/(used in) operating activities	170	(1,070)	516
Cash flows from investing activities			
Purchase of available-for-sale securities	(81)	(42)	(430)
Proceeds from maturities/sale of available-for-sale securities	30	-	171
Purchase of capitalised computer software	(15)	(21)	(59)
Purchase of property, plant and equipment	(3)	(3)	(40)
Net cash used in investing activities	(69)	(66)	(358)
Cash flows from financing activities			
Share capital repurchased	(450)	-	(450)
Net increase in debt issues	449	1,253	736
Net (decrease)/increase in due to related entities	(201)	213	424
Payment of dividends	-	(375)	(378)
Net cash (used in)/provided by financing activities	(202)	1,091	332
Net (decrease)/increase in cash and cash equivalents	(101)	(45)	490
Cash and cash equivalents at beginning of the period/year	2,294	1,804	1,804
Cash and cash equivalents at end of the period/year	2,193	1,759	2,294
Cash and cash equivalents at end of the period/year comprise:			
Cash and balances with central banks	1,998	1,459	1,903
Due from other financial institutions	195	300	391
Cash and cash equivalents at end of the period/year	2,193	1,759	2,294

¹ The presentation of the statement of cash flows has been revised to improve the classification of movements in cash and cash equivalents. Certain cash flows have been reclassified between operating, investing and financing activities. Certain balances due from/to other financial institutions have been reclassified out of cash and cash equivalents. Comparative figures have been revised in order to ensure consistency.

The accompanying notes (numbered 1 to 16) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

In these financial statements reference is made to the following reporting entities:

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

These consolidated financial statements have been prepared and presented in accordance with the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 ('**Order**').

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* ('**NZ IAS 34**') and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2014. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As outlined in the Disclosure Statement for the year ended 30 September 2014, Amendments to NZ IAS 32 *Financial Instruments: Presentation* ('**NZ IAS 32**') - *Offsetting Financial Assets and Financial Liabilities* was issued in February 2012 and is effective for the 30 September 2015 financial year. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in NZ IAS 32, including clarifying that the meaning of current legal enforceable rights of set-off is legally enforceable in all circumstances and that some gross settlement systems (such as through a clearing house) may be considered as the equivalent to net settlement. The amendment does not have a material impact on the financial statements of the Banking Group.

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 18 February 2015. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2014, except as amended for the changes required due to the adoption of the amended accounting standards as explained in the 'Statutory base' section.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

Notes to the financial statements

Note 2 Non-interest income

\$ millions	The Banking Group		
	Three Months Ended 31-Dec-14 Unaudited	Three Months Ended 31-Dec-13 Unaudited	Year Ended 30-Sep-14 Audited
Fees and commissions			
Transaction fees and commissions	71	75	284
Lending fees (loan and risk)	16	15	64
Management fees received from related entities	2	1	6
Other non-risk fee income	8	7	32
Total fees and commissions	97	98	386
Net ineffectiveness on qualifying hedges	(2)	1	-
Other non-interest income			
Net unrealised losses on derivatives held for trading	-	(1)	-
Dividend income	-	-	2
Gain on sale of available-for-sale securities ¹	-	48	88
Other	6	1	4
Total other non-interest income	6	48	94
Total non-interest income	101	147	480

¹ During the year ended 30 September 2014, the Bank realised a gain of \$88 million upon the sale of its holding of available-for-sale overseas equity securities. Of this gain, \$48 million was realised in the three months ended 31 December 2013 in respect of available-for-sale overseas equity securities which were sold to third parties. The remaining gain was realised in respect of available-for-sale overseas equity securities which were sold to Westpac Banking Corporation (the 'Ultimate Parent Bank').

Note 3 Impairment charges on loans

\$ millions	The Banking Group			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Three months ended 31 December 2014 (Unaudited)				
Collectively assessed provisions	2	2	(7)	(3)
Individually assessed provisions	4	-	17	21
Bad debts written-off/(recovered) directly to the income statement	1	8	(1)	8
Interest adjustments	(1)	(3)	(3)	(7)
Total impairment charges on loans	6	7	6	19
Three months ended 31 December 2013 (Unaudited)				
Collectively assessed provisions	1	2	12	15
Individually assessed provisions	4	-	(11)	(7)
Bad debts written-off directly to the income statement	1	9	1	11
Interest adjustments	(1)	(2)	(3)	(6)
Total impairment charges /(recoveries) on loans	5	9	(1)	13
Year ended 30 September 2014 (Audited)				
Collectively assessed provisions	(2)	4	(27)	(25)
Individually assessed provisions	7	-	32	39
Bad debts written-off/(recovered) directly to the income statement	2	38	(1)	39
Interest adjustments	(3)	(10)	(14)	(27)
Total impairment charges/(recoveries) on loans	4	32	(10)	26

Notes to the financial statements

Note 4 Trading securities

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Certificates of deposit	1,038	1,292	607
Corporate bonds	271	352	272
Local authority and NZ public securities	1,061	351	337
Securities purchased under agreement to resell	-	209	-
Total trading securities	2,370	2,204	1,216

As at 31 December 2014, no trading securities in the Banking Group (31 December 2013: nil, 30 September 2014: nil) were encumbered through repurchase agreements.

Note 5 Loans

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Overdrafts	1,072	1,217	1,153
Credit card outstandings	1,471	1,421	1,405
Money market loans	1,041	854	1,082
Term loans:			
Housing	40,315	38,071	39,702
Non-housing	21,670	20,881	21,146
Other	551	415	536
Total gross loans	66,120	62,859	65,024
Provisions for impairment charges on loans	(455)	(485)	(442)
Total net loans	65,665	62,374	64,582

As at 31 December 2014, \$3,797 million of housing loans are used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under the Bank's Global Covered Bond Programme ('CB Programme') (31 December 2013: \$3,926 million, 30 September 2014: \$4,002 million). These housing loans were not derecognised from the Bank's financial statements 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 2014. As at 31 December 2014, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$3,205 million (31 December 2013: \$2,209 million, 30 September 2014: \$3,360 million).

Note 6 Credit quality, impaired assets and provisions for impairment charges on loans

\$ millions	The Banking Group 31-Dec-14 (Unaudited)			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Neither past due nor impaired	39,048	1,883	23,163	64,094
Past due assets:				
Less than 90 days past due	1,152	142	224	1,518
At least 90 days past due	54	14	29	97
Total past due assets	1,206	156	253	1,615
Individually impaired assets	61	-	350	411
Total gross loans	40,315	2,039	23,766	66,120
Individually assessed provisions	18	-	142	160
Collectively assessed provisions	68	73	185	326
Total provisions for impairment charges on loans and credit commitments	86	73	327	486
Provision for credit commitments	-	-	(31)	(31)
Total provisions for impairment charges on loans	86	73	296	455
Total net loans	40,229	1,966	23,470	65,665



Notes to the financial statements

Note 7 Deposits

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Deposits at fair value			
Certificates of deposit	1,537	1,244	1,154
Total deposits at fair value	1,537	1,244	1,154
Deposits at amortised cost			
Non-interest bearing, repayable at call	3,853	3,625	3,607
Other interest bearing:			
At call	22,211	19,753	20,620
Term	25,533	24,279	25,189
Total deposits at amortised cost	51,597	47,657	49,416
Total deposits	53,134	48,901	50,570

Note 8 Debt issues

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Short-term debt			
Commercial paper	2,492	4,440	3,019
Total short-term debt	2,492	4,440	3,019
Long-term debt			
Non-domestic medium-term notes	3,918	3,029	3,063
Covered Bonds	3,205	2,209	3,360
Domestic medium-term notes	3,099	3,364	3,150
Total long-term debt	10,222	8,602	9,573
Total debt issues	12,714	13,042	12,592
Debt issues at amortised cost	10,222	8,602	9,573
Debt issues at fair value	2,492	4,440	3,019
Total debt issues	12,714	13,042	12,592
Movement in debt issues			
Balance at beginning of the period/year	12,592	11,645	11,645
Issuance during the period/year	1,927	3,022	10,023
Repayments during the period/year	(1,478)	(1,769)	(9,287)
Effect of foreign exchange movements during the period/year	(319)	158	218
Effect of fair value movements and amortisation adjustments during the period/year	(8)	(14)	(7)
Balance at end of the period/year	12,714	13,042	12,592

As at 31 December 2014, the Banking Group had no New Zealand Government guaranteed debt on issue (31 December 2013: \$1,889 million, 30 September 2014: nil).

Notes to the financial statements

Note 9 Related entities

Controlled entities of the Bank as at 30 September 2014 are set out in Note 24 to the financial statements included in the Disclosure Statement for the year ended 30 September 2014.

On 4 December 2014, the Bank repurchased 450 million ordinary shares from its immediate parent company, Westpac New Zealand Group Limited. Each share was repurchased for \$1 per share. These shares were immediately cancelled on repurchase.

Note 10 Fair value of financial instruments

Fair valuation control framework

The Banking Group's control environment uses a well-established Fair Valuation Control Framework to ensure that fair value is either determined or validated by a function independent of the party that undertakes the transaction. The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

Quoted price in an active market

The best evidence of fair value is a quoted price in an active market.

Valuation techniques

Where no direct quoted price in an active market is available, the Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the Banking Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets. Typically in these instances valuation inputs will be derived using alternative means (including extrapolation from other relevant market data) and tested against historical transactions. The use of these inputs will require a high degree of management judgment.

Fair value hierarchy

The Banking Group categorises all fair value measurements according to the following fair value hierarchy:

- **Quoted market price ('Level 1')**
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities. Financial instruments included in the Level 1 category are NZ Government securities (31 December 2013: exchange traded equities).
- **Valuation techniques using observable inputs ('Level 2')**
Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.
Financial instruments included in the Level 2 category are:
 - deposits at fair value, trading liabilities, debt issues at fair value, securities purchased under agreement to resell with related entities, securities sold under agreement to repurchase with related entities, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, local authority and NZ public securities and securities purchased under agreement to resell; and
 - derivatives including interest rate swaps and foreign exchange swaps, with external and related parties.
- **Valuation techniques with significant non-observable inputs ('Level 3')**
Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market 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 historic transactions.
These valuations are calculated using a high degree of management judgment.
Financial instruments included in the Level 3 category are NZ unlisted equity instruments (31 December 2013: NZ unlisted equity instruments).

A financial instrument's categorisation within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.



Note 10 Fair value of financial instruments (continued)

All financial assets and financial liabilities measured at fair value are included in Level 2 of the fair value hierarchy except for available-for-sale securities. The following table summarises the attribution of available-for-sale securities measured at fair value to the fair value hierarchy based on the measurement basis after initial recognition:

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Available-for-sale securities			
Level 1	1,992	59	1,975
Level 2	1,057	2,637	993
Level 3 ¹	42	28	42
Total available-for-sale securities	3,091	2,724	3,010

¹ Balances within this category of the fair value hierarchy are not considered material to the total Available-for-sale securities balance.

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 of the Banking Group during the three months ended 31 December 2014 (31 December 2013: no material changes in fair value, 30 September 2014: no material changes in fair value).

There have been no significant transfers into/out of Level 1, 2 or 3 during the three months ended 31 December 2014 (31 December 2013: nil). During the year ended 30 September 2014, Westpac Banking Corporation (the 'Ultimate Parent Bank'), being a primary dealer, saw and participated in increased liquidity in the Government bond markets as part of its broader financial markets strategy. Therefore, financial assets at 30 September 2014 include \$1,975 million of New Zealand Government bonds which were transferred from Level 2 to Level 1 of the fair value hierarchy. There were no significant transfers into/out of Level 3 during the year ended 30 September 2014. Transfers in and transfers out are reported using the end-of-period fair values.

Financial instruments not measured at fair value and their estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. NZ IFRS 7 *Financial Instruments: Disclosures* requires the disclosure of the fair value of those financial instruments not already carried at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value disclosure does not cover those assets and liabilities that are not considered to be financial instruments from an accounting perspective, such as income tax and intangible assets.

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

\$ millions	The Banking Group					
	31-Dec-14 (Unaudited)		31-Dec-13 (Unaudited)		30-Sep-14 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	65,665	65,564	62,374	62,232	64,582	64,452
Total financial assets	65,665	65,564	62,374	62,232	64,582	64,452
Financial liabilities						
Deposits	51,597	51,650	47,657	47,727	49,416	49,459
Debt issues	10,222	10,332	8,602	9,013	9,573	9,704
Total financial liabilities	61,819	61,982	56,259	56,740	58,989	59,163

For cash and balances with central banks, due from and due to other financial institutions, non-derivative balances due from and due to related entities which are carried at amortised cost and other types of short-term financial instruments recognised in the balance sheet under 'other assets' and 'other liabilities', the carrying amount is equivalent to fair value. These items are either short-term in nature or repriced frequently, and are of a high credit rating.

Notes to the financial statements

Note 11 Commitments and contingent liabilities

\$ millions	The Banking Group		
	31-Dec-14 Unaudited	31-Dec-13 Unaudited	30-Sep-14 Audited
Commitments for capital expenditure			
Due within one year	3	3	3
Other expenditure commitments:			
One year or less	132	89	121
Between one and five years	378	226	308
Over five years	42	2	44
Total other expenditure commitments	552	317	473
Lease commitments (all leases are classified as operating leases)			
Premises and sites	264	293	277
Motor vehicles	7	8	7
Total lease commitments	271	301	284
Lease commitments are due as follows:			
One year or less	62	48	64
Between one and five years	157	170	162
Over five years	52	83	58
Total lease commitments	271	301	284
Other contingent liabilities and commitments			
Direct credit substitutes	80	70	85
Loan commitments with certain drawdown	274	200	236
Transaction-related contingent items	614	776	602
Short-term, self-liquidating trade-related contingent liabilities	390	409	399
Other commitments to provide financial services	21,287	19,656	21,312
Total other contingent liabilities and commitments	22,645	21,111	22,634

As at 31 December 2014, \$192 million of available-for-sale securities were pledged as collateral for the Banking Group's liabilities under repurchase agreements (31 December 2013: \$279 million, 30 September 2014: \$457 million). Of this amount \$121 million was pledged as collateral to the NZ Branch (31 December 2013: \$279 million, 30 September 2014: \$367 million) which is recorded within Due to related entities and \$71 million was to third parties (31 December 2013: nil, 30 September 2014: \$90 million) which is recorded as Trading liabilities.

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. The Bank is the defendant in proceedings filed on 20 August 2014 by the plaintiff group. Proceedings have also been filed against three other banks. At this stage the impact of the proceedings cannot be determined with any certainty.

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

Note 12 Segment information

The Banking Group operates predominantly in the consumer, business and institutional banking sectors within New Zealand. On this basis, no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the Banking Group. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on a cost recovery basis.

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

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

- Retail Banking provides financial services predominantly for individuals;
- Business Bank and Wealth provides financial services for small to medium sized enterprise customers and high net worth individuals, and provides funds management and insurance distribution services to a range of customers; and
- Corporate and Institutional provides a broad range of financial services to corporate, agricultural, institutional and government customers.

Reconciling items primarily represent:

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

Notes to the financial statements

Note 12 Segment information (continued)

\$ millions	Retail Banking	Business Bank and Wealth	The Banking Group Corporate and Institutional	Reconciling Items ¹	Total
Three months ended 31 December 2014 (Unaudited)					
Net interest income	200	93	90	57	440
Non-interest income	49	48	26	(22)	101
Net operating income	249	141	116	35	541
Net operating income from external customers	331	153	214	(157)	541
Net internal interest expense	(82)	(12)	(98)	192	-
Net operating income	249	141	116	35	541
Operating expenses	(40)	(19)	(13)	(142)	(214)
Impairment charges on loans	(12)	(4)	(3)	-	(19)
Profit before income tax expense	197	118	100	(107)	308
Total gross loans	30,687	14,740	20,773	(80)	66,120
Total deposits	23,696	14,371	13,527	1,540	53,134
Three months ended 31 December 2013 (Unaudited)					
Net interest income	181	85	92	42	400
Non-interest income	49	46	22	30	147
Net operating income	230	131	114	72	547
Net operating income from external customers	302	137	205	(97)	547
Net internal interest expense	(72)	(6)	(91)	169	-
Net operating income	230	131	114	72	547
Operating expenses	(40)	(20)	(13)	(136)	(209)
Impairment (charges)/recoveries on loans	(12)	(2)	1	-	(13)
Profit before income tax expense	178	109	102	(64)	325
Total gross loans	29,043	14,137	19,835	(156)	62,859
Total deposits	22,600	13,346	11,711	1,244	48,901
Year ended 30 September 2014 (Audited)					
Net interest income	738	348	367	187	1,640
Non-interest income	198	190	93	(1)	480
Net operating income	936	538	460	186	2,120
Net operating income from external customers	1,248	584	819	(531)	2,120
Net internal interest expense	(312)	(46)	(359)	717	-
Net operating income	936	538	460	186	2,120
Operating expenses	(156)	(76)	(48)	(537)	(817)
Impairment charges on loans	(36)	(2)	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	744	460	412	(338)	1,278
Total gross loans	30,168	14,641	20,322	(107)	65,024
Total deposits	23,212	13,598	12,600	1,160	50,570

¹ Included in the reconciling items for total operating expenses is \$152 million (31 December 2013: \$144 million; 30 September 2014: \$569 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 13 Insurance business

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



Notes to the financial statements

Note 14 Capital adequacy

The information contained in this note has been derived in accordance with the Bank's conditions of registration which relate to capital adequacy and the document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) issued by the Reserve Bank.

During the three months ended 31 December 2014, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

	The Banking Group 31-Dec-14 Unaudited
\$ millions	
Tier One Capital	
Common Equity Tier One Capital ¹	6,336
<i>Less deductions from Common Equity Tier One Capital</i>	<i>(954)</i>
Total Common Equity Tier One Capital	5,382
Additional Tier One Capital	2
<i>Less deductions from Additional Tier One Capital</i>	<i>-</i>
Total Tier One Capital	5,384
Tier Two Capital	-
<i>Less deductions from Tier Two Capital</i>	<i>-</i>
Total Capital	5,384

¹ Common Equity Tier One Capital includes available-for-sale securities reserve of \$35 million and cash flow hedge reserve of \$(17) million.

Capital ratios

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 1 of Schedule 12 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B).

	The Banking Group 31-Dec-14 Unaudited
%	
Capital adequacy ratios	
Common Equity Tier One Capital ratio	11.4%
Tier One Capital ratio	11.4%
Total Capital ratio	11.4%
Reserve Bank minimum ratios	
Common Equity Tier One Capital ratio	4.5%
Tier One Capital ratio	6.0%
Total Capital ratio	8.0%
Buffer ratios	
Buffer ratio	3.4%
Buffer ratio requirement	2.5%

¹ From 1 January 2014, a prescribed minimum regulatory buffer ratio of 2.5% became effective.

Notes to the financial statements

Note 14 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

\$ millions		The Banking Group 31-Dec-14 Unaudited
Credit risk		
Exposures subject to the internal ratings based approach:		
Residential mortgages		1,176
Other retail (credit cards, personal loans, personal overdrafts)		215
Small business		60
Banking Group - Corporate/Business lending		1,318
Sovereign		15
Bank		25
Total exposures subject to the internal ratings based approach		2,809
Exposures not subject to the internal ratings based approach:		
Equity exposures		14
Specialised lending subject to the slotting approach		435
Exposures subject to the standardised approach		81
Total exposures not subject to the internal ratings based approach		530
Total credit risk (scaled)¹		3,339
Operational risk		376
Market risk		71
Supervisory adjustment		-
Total		3,786

¹ As disclosed in the Bank's conditions of registration included in the Disclosure Statement for the year ended 30 September 2014, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06.

Capital for other material risk

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

The Banking Group's internal capital allocation for 'other material risk' is:

\$ millions		The Banking Group 31-Dec-14 Unaudited
Internal capital allocation		
Other material risk		647

Note 15 Risk management

15.1 Credit risk

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2014 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the Bank utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore, is not available for disclosure as required under Clause 7 of Schedule 12 to the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range (\$ millions)	The Banking Group 31-Dec-14 (Unaudited)					Total
	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	15,480	7,099	9,950	5,262	2,362	40,153
Undrawn commitments and other off-balance sheet exposures	4,894	1,268	1,269	434	166	8,031
Value of exposures	20,374	8,367	11,219	5,696	2,528	48,184



Note 15 Risk Management (continued)

15.2 Liquidity risk

Liquid assets

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

	The Banking Group 31-Dec-14 Unaudited
\$ millions	
Cash and balances with central banks	1,998
Due from other financial institutions	195
Due from other financial institutions (included in due from related entities)	531
Supranational securities	526
NZ Government securities	2,480
NZ public securities	1,510
NZ corporate securities	1,390
Residential mortgage-backed securities	3,992
Total liquid assets	12,622

Note 16 Concentration of credit exposures to individual counterparties

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

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 December 2014 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2014 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 December 2014 was two counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having an aggregate credit exposure between 10%-14% and the other having an aggregate credit exposure between 20%-24%; and
- for the three months ended 31 December 2014 was three counterparties with a credit rating of A- or A3 or above, or its equivalent, with two having a peak end-of-day aggregate credit exposure between 10%-14% and the other having a peak end-of-day aggregate credit exposure between 20%-24%.

The peak end-of-day aggregate credit exposures to each individual counterparty or a group of closely related counterparties have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's equity as at the end of the period.

Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude exposures to connected persons, to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of individually assessed provisions.

