

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

For the nine months ended 30 June 2015



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## General information and definitions

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

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

- 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);
- 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;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- 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.

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.

## Limits on material financial support by the ultimate parent bank

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Since 30 September 2014 there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of the Overseas Bank to provide material financial support to the NZ Branch. The Australian Prudential Regulation Authority ('**APRA**') has however initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. The details of this process are yet to be finalised but may impact the amount of non-equity financial support that is provided by the Overseas Bank in the future. The Overseas Bank will work with APRA and the NZ Branch to adjust funding over time as required.

## General matters

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### Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:

**Lindsay Philip Maxsted**, DipBus (Gordon), FCA, FAICD – Chairman

**Brian Charles Hartzler**, BA, CFA – Managing Director & Chief Executive Officer

**Elizabeth Blomfield Bryan** AM, BA (Econ.), MA (Econ.)

**Ewen Graham Wolseley Crouch** AM, BEc (Hons.), LLB, FAICD

**Catriona Alison Deans**, BA, MBA, GAICD

**Craig William Dunn**, BCom, FCA

**Robert George Elstone**, BA (Hons.), MA (Econ.), MCom

**Peter John Oswin Hawkins**, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD

**Peter Ralph Marriott**, BEc (Hons.), FCA

### Changes to the Directorate

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2014:

- Ann Pickard retired from the Board on 12 December 2014;
- Gail Kelly retired as Managing Director on 1 February 2015;
- Brian Hartzler was appointed as Managing Director on 2 February 2015; and
- Craig Dunn was appointed to the Board effective 1 June 2015.

### Chief Executive Officer, NZ Branch

**Karen Lee Ann Silk**, B.Com

### Responsible person

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

## Credit ratings

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

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa2	Stable
Standard & Poor's	AA-	Stable

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

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2014 and for the six months ended 31 March 2015, respectively, and can be accessed at the internet address [www.westpac.com.au](http://www.westpac.com.au).

## Guarantee arrangements

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No material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed as at the date this Disclosure Statement was signed.

## Conditions of registration

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There have been no changes to the NZ Banking Group's conditions of registration since 31 March 2015.

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

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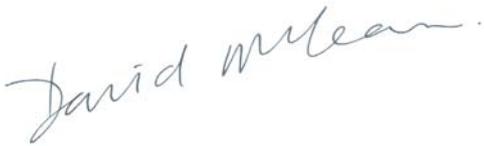
Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

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

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the nine months ended 30 June 2015:

- (a) the Overseas Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- (b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group.

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



David Alexander McLean



Karen Lee Ann Silk

Dated this the 26<sup>th</sup> day of August 2015

**Consolidated income statement** for the nine months ended 30 June 2015

<b>\$ millions</b>	Note	<b>NZ Banking Group</b>		
		Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
Interest income		3,339	2,952	4,037
Interest expense		(2,017)	(1,778)	(2,447)
<b>Net interest income</b>		<b>1,322</b>	<b>1,174</b>	<b>1,590</b>
Non-interest income	2	439	521	677
<b>Net operating income</b>		<b>1,761</b>	<b>1,695</b>	<b>2,267</b>
Operating expenses		(680)	(652)	(868)
Impairment charges on loans	3	(45)	(5)	(26)
<b>Operating profit</b>		<b>1,036</b>	<b>1,038</b>	<b>1,373</b>
Share of profit of associate accounted for using the equity method		-	-	1
<b>Profit before income tax expense</b>		<b>1,036</b>	<b>1,038</b>	<b>1,374</b>
Income tax expense		(279)	(261)	(355)
<b>Profit after income tax expense</b>		<b>757</b>	<b>777</b>	<b>1,019</b>
<b>Profit after income tax expense attributable to:</b>				
Head office account and owners of the NZ Banking Group		755	775	1,016
Non-controlling interests		2	2	3
		<b>757</b>	<b>777</b>	<b>1,019</b>

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

**Consolidated statement of comprehensive income** for the nine months ended 30 June 2015

<b>\$ millions</b>	<b>NZ Banking Group</b>		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
<b>Profit after income tax expense</b>	<b>757</b>	<b>777</b>	<b>1,019</b>
<b>Other comprehensive (expense)/income which may be reclassified subsequently to the income statement:</b>			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	1	21	24
Transferred to the income statement (refer to Note 2)	(19)	(88)	(88)
Exchange differences	-	(3)	(3)
Income tax effect	5	(3)	(4)
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	(149)	36	(52)
Transferred to the income statement	16	(14)	49
Income tax effect	37	(6)	1
<b>Total other comprehensive (expense) which may be reclassified subsequently to the income statement</b>	<b>(109)</b>	<b>(57)</b>	<b>(73)</b>
<b>Other comprehensive (expense)/income which will not be reclassified subsequently to the income statement:</b>			
Remeasurement of employee defined benefit obligations	(7)	-	4
Income tax effect	2	-	(1)
<b>Total other comprehensive (expense)/income which will not be reclassified subsequently to the income statement</b>	<b>(5)</b>	<b>-</b>	<b>3</b>
<b>Total other comprehensive (expense), net of tax</b>	<b>(114)</b>	<b>(57)</b>	<b>(70)</b>
<b>Total comprehensive income</b>	<b>643</b>	<b>720</b>	<b>949</b>
<b>Total comprehensive income attributable to:</b>			
Head office account and owners of NZ Banking Group	641	718	946
Non-controlling interests	2	2	3
	<b>643</b>	<b>720</b>	<b>949</b>

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

**Consolidated statement of changes in equity** for the nine months ended 30 June 2015

\$ millions	NZ Banking Group								
	NZ Branch		Other members of the NZ Banking Group				Total Before Non- controlling Interests	Non- controlling Interests	Total Equity
	Head Office Account	Retained	Ordinary	Retained	Available- for-sale	Cash			
Branch Capital	Profits	Share Capital	Profits	Securities Reserve	Flow Hedge Reserve				
<b>As at 1 October 2013 (Audited)</b>	1,300	339	139	2,895	106	12	4,791	6	4,797
<b>Nine months ended 30 June 2014 (Unaudited)</b>									
Profit after income tax expense	-	80	-	695	-	-	775	2	777
Net gains from changes in fair value	-	-	-	-	21	36	57	-	57
Income tax effect	-	-	-	-	(3)	(10)	(13)	-	(13)
Exchange differences	-	-	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	(88)	(14)	(102)	-	(102)
Income tax effect	-	-	-	-	-	4	4	-	4
<b>Total comprehensive income for the nine months ended 30 June 2014</b>	-	80	-	695	(73)	16	718	2	720
Transactions with owners:									
Aggregation of new entities	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(3)	(3)
<b>As at 30 June 2014 (Unaudited)</b>	1,300	419	143	3,590	33	28	5,513	5	5,518
<b>Year ended 30 September 2014 (Audited)</b>									
Profit after income tax expense	-	111	-	905	-	-	1,016	3	1,019
Net gains/(losses) from changes in fair value	-	-	-	-	24	(52)	(28)	-	(28)
Income tax effect	-	-	-	-	(4)	15	11	-	11
Exchange differences	-	-	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	(88)	49	(39)	-	(39)
Income tax effect	-	-	-	-	-	(14)	(14)	-	(14)
Remeasurement of employee defined benefit obligations	-	-	-	4	-	-	4	-	4
Income tax effect	-	-	-	(1)	-	-	(1)	-	(1)
<b>Total comprehensive income for the year ended 30 September 2014</b>	-	111	-	908	(71)	(2)	946	3	949
Transactions with owners:									
Aggregation of new entities	-	-	4	-	-	-	4	-	4
Dividends paid on ordinary shares	-	-	-	(248)	-	-	(248)	(3)	(251)
<b>As at 30 September 2014 (Audited)</b>	1,300	450	143	3,555	35	10	5,493	6	5,499
<b>Nine months ended 30 June 2015 (Unaudited)</b>									
Profit after income tax expense	-	52	-	703	-	-	755	2	757
Net gains/(losses) from changes in fair value	-	-	-	-	1	(149)	(148)	-	(148)
Income tax effect	-	-	-	-	-	41	41	-	41
Transferred to income statement	-	-	-	-	(19)	16	(3)	-	(3)
Income tax effect	-	-	-	-	5	(4)	1	-	1
Remeasurement of employee defined benefit obligations	-	-	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	-	-	2	-	-	2	-	2
<b>Total comprehensive income for the nine months ended 30 June 2015</b>	-	52	-	698	(13)	(96)	641	2	643
Transactions with owners:									
Dividends paid on ordinary shares	-	-	-	(151)	-	-	(151)	(5)	(156)
<b>As at 30 June 2015 (Unaudited)</b>	1,300	502	143	4,102	22	(86)	5,983	3	5,986

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

## Consolidated balance sheet as at 30 June 2015

\$ millions	Note	NZ Banking Group		
		30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
<b>Assets</b>				
Cash and balances with central banks		1,958	1,776	1,927
Due from other financial institutions		234	326	591
Trading securities and other financial assets designated at fair value	4	3,979	5,599	3,514
Derivative financial instruments		5,335	3,494	4,180
Available-for-sale securities		3,385	2,891	3,010
Loans	5, 6	68,191	64,226	65,027
Life insurance assets		253	288	297
Due from related entities		3,225	980	1,770
Investment in associate		48	48	48
Property, plant and equipment		162	157	178
Deferred tax assets		159	126	120
Current tax assets		64	53	-
Goodwill and other intangible assets		693	732	715
Other assets		462	428	301
<b>Total assets</b>		<b>88,148</b>	<b>81,124</b>	<b>81,678</b>
<b>Liabilities</b>				
Due to other financial institutions		1,234	876	1,141
Deposits and other borrowings	7	53,305	49,510	50,570
Other financial liabilities at fair value through income statement	8	522	1,396	1,072
Derivative financial instruments		5,699	3,550	4,123
Debt issues	9	14,505	13,437	12,592
Current tax liabilities		-	-	30
Provisions		78	83	87
Other liabilities		711	676	697
<b>Total liabilities excluding related entities liabilities</b>		<b>76,054</b>	<b>69,528</b>	<b>70,312</b>
Subordinated debentures		794	640	710
Due to related entities		5,314	5,438	5,157
<b>Total related entities liabilities</b>		<b>6,108</b>	<b>6,078</b>	<b>5,867</b>
<b>Total liabilities</b>		<b>82,162</b>	<b>75,606</b>	<b>76,179</b>
<b>Net assets</b>		<b>5,986</b>	<b>5,518</b>	<b>5,499</b>
<b>Equity</b>				
<b>Head office account</b>				
Branch capital		1,300	1,300	1,300
Retained profits		502	419	450
<b>Total head office account</b>		<b>1,802</b>	<b>1,719</b>	<b>1,750</b>
<b>NZ Banking Group equity</b>				
Ordinary share capital		143	143	143
Retained profits		4,102	3,590	3,555
Available-for-sale securities reserve		22	33	35
Cash flow hedge reserve		(86)	28	10
<b>Total equity attributable to owners of the NZ Banking Group</b>		<b>4,181</b>	<b>3,794</b>	<b>3,743</b>
Non-controlling interests		3	5	6
<b>Total equity</b>		<b>5,986</b>	<b>5,518</b>	<b>5,499</b>
Interest earning and discount bearing assets		79,991	75,069	74,494
Interest and discount bearing liabilities		69,936	66,793	66,117

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

**Consolidated statement of cash flows** for the nine months ended 30 June 2015

<b>\$ millions</b>	<b>NZ Banking Group</b>		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
<b>Cash flows from operating activities</b>			
Interest income received	3,352	2,933	4,013
Interest expense paid	(1,872)	(1,767)	(2,441)
Non-interest income received	396	417	560
Operating expenses paid	(619)	(580)	(774)
Income tax paid	(369)	(319)	(318)
Cash flows from operating activities before changes in operating assets and liabilities	888	684	1,040
Net (increase)/decrease in:			
Due from other financial institutions	76	(153)	(2)
Trading securities and other financial assets designated at fair value	(469)	(1,145)	973
Loans	(3,134)	(2,333)	(3,036)
Due from related entities	(1,823)	7	(138)
Other assets	(2)	(6)	(3)
Net increase/(decrease) in:			
Due to other financial institutions	93	541	806
Deposits and other borrowings	2,698	1,295	2,392
Other financial liabilities at fair value through income statement	(550)	898	574
Other liabilities	4	1	(2)
Net movement in external and related entity derivative financial instruments	1,544	(744)	(306)
<b>Net cash (used in)/provided by operating activities</b>	<b>(675)</b>	<b>(955)</b>	<b>2,298</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale securities	(915)	(293)	(430)
Proceeds from maturities/sale of available-for-sale securities	506	133	171
Net decrease/(increase) in life insurance assets	44	1	(8)
Purchase of capitalised computer software	(26)	(55)	(59)
Purchase of property, plant and equipment	(11)	(9)	(39)
<b>Net cash used in investing activities</b>	<b>(402)</b>	<b>(223)</b>	<b>(365)</b>
<b>Cash flows from financing activities</b>			
Net increase in debt issues	1,145	2,275	736
Net decrease in due to related entities	(162)	(1,166)	(1,923)
Dividends paid to ordinary shareholders	(151)	-	(248)
Dividends paid on minority shareholders	(5)	(3)	(3)
<b>Net cash provided by/(used in) financing activities</b>	<b>827</b>	<b>1,106</b>	<b>(1,438)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(250)</b>	<b>(72)</b>	<b>495</b>
Cash and cash equivalents at beginning of the period/year	2,343	1,848	1,848
<b>Cash and cash equivalents at end of the period/year</b>	<b>2,093</b>	<b>1,776</b>	<b>2,343</b>
<b>Cash and cash equivalents at end of the period/year comprise:</b>			
Cash and balances with central banks	1,958	1,776	1,927
Due from other financial institutions	135	-	416
<b>Cash and cash equivalents at end of the period/year</b>	<b>2,093</b>	<b>1,776</b>	<b>2,343</b>

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements

# Notes to the financial statements

## Note 1 Statement of accounting policies

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### Statutory base

In these financial statements reference is made to the following reporting 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);
- 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;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities; and
- 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.

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 (Overseas 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 and for the periods ended 31 December 2014 and 31 March 2015. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

In preparing these financial statements, the application of the NZ Banking Group's accounting policies requires the use of judgments, estimates and assumptions. As disclosed in the financial statements for the six months ended 31 March 2015, the NZ Banking Group made a number of methodology changes to derivative valuations. These changes included an introduction of a Funding Valuation Adjustment ('**FVA**') to the fair value of derivatives. Other than these changes, the areas of judgment, estimates and assumptions in the financial statements, including the key sources of estimation uncertainty, are consistent with those in the Disclosure Statement for the year ended 30 September 2014.

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 guidance to applying the 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 NZ Banking Group.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the '**Board**') on 26 August 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 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	NZ Banking Group		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
<b>Fees and commissions</b>			
Transaction fees and commissions	149	169	226
Lending fees (loan and risk)	49	50	68
Other non-risk fee income	30	28	38
<b>Total fees and commissions</b>	<b>228</b>	<b>247</b>	<b>332</b>
<b>Wealth management revenue</b>			
Fees from trust and other fiduciary activities	29	25	34
Net life insurance income and change in policy liabilities	74	73	97
<b>Total wealth management revenue</b>	<b>103</b>	<b>98</b>	<b>131</b>
<b>Trading income</b>			
Foreign exchange trading	76	68	88
Other trading products	8	15	29
<b>Total trading income</b>	<b>84</b>	<b>83</b>	<b>117</b>
<b>Net ineffectiveness on qualifying hedges</b>	<b>(6)</b>	<b>-</b>	<b>3</b>
<b>Other non-interest income</b>			
Dividend income	2	2	2
Gain on sale of available-for-sale securities <sup>1</sup>	19	88	88
Other	9	3	4
<b>Total other non-interest income</b>	<b>30</b>	<b>93</b>	<b>94</b>
<b>Total non-interest income</b>	<b>439</b>	<b>521</b>	<b>677</b>

<sup>1</sup> During the nine months ended 30 June 2015, Westpac New Zealand realised a gain of \$19 million upon the sale of its holding of available-for-sale equity securities (30 June 2014: \$88 million, 30 September 2014: \$88 million). Of the gain realised for the year ended 30 September 2014, \$41 million was in respect of available-for-sale overseas equity securities which were sold to the Overseas Bank.

## Note 3 Impairment charges on loans

\$ millions	NZ Banking Group			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
<b>Nine months ended 30 June 2015 (Unaudited)</b>				
Collectively assessed provisions	(8)	11	(3)	-
Individually assessed provisions	8	-	26	34
Bad debts written-off directly to the income statement	2	28	1	31
Interest adjustments	(2)	(8)	(10)	(20)
<b>Total impairment charges on loans</b>	<b>-</b>	<b>31</b>	<b>14</b>	<b>45</b>
<b>Nine months ended 30 June 2014 (Unaudited)</b>				
Collectively assessed provisions	-	7	(9)	(2)
Individually assessed provisions	7	-	(8)	(1)
Bad debts written-off/(recovered) directly to the income statement	1	30	(3)	28
Interest adjustments	(3)	(7)	(10)	(20)
<b>Total impairment charges/(recoveries) on loans</b>	<b>5</b>	<b>30</b>	<b>(30)</b>	<b>5</b>
<b>Year ended 30 September 2014 (Audited)</b>				
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)
<b>Total impairment charges/(recoveries) on loans</b>	<b>4</b>	<b>32</b>	<b>(10)</b>	<b>26</b>

# Notes to the financial statements

## Note 4 Trading securities and other financial assets designated at fair value

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Certificates of deposit	1,658	2,538	1,421
Corporate bonds and asset backed securities	420	514	455
Mortgage-backed securities	2	2	46
NZ Government securities	735	1,586	836
Local authority and NZ public securities	777	275	379
Securities purchased under agreement to resell	387	684	377
<b>Total trading securities and financial assets designated at fair value</b>	<b>3,979</b>	<b>5,599</b>	<b>3,514</b>

As at 30 June 2015, the NZ Banking Group had \$132 million of trading securities and other financial assets designated at fair value (30 June 2014: \$732 million, 30 September 2014: \$377 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

## Note 5 Loans

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Overdrafts	1,202	1,064	1,153
Credit card outstanding	1,593	1,385	1,405
Money market loans	1,272	1,022	1,082
Term loans:			
Housing	41,201	39,289	39,705
Non-housing	22,028	21,043	21,146
Other	1,331	866	978
<b>Total gross loans</b>	<b>68,627</b>	<b>64,669</b>	<b>65,469</b>
Provisions for impairment charges on loans	(436)	(443)	(442)
<b>Total net loans</b>	<b>68,191</b>	<b>64,226</b>	<b>65,027</b>

As at 30 June 2015, \$5,124 million of housing loans were used by the NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand's Global Covered Bond Programme ('CB Programme') (30 June 2014: \$4,228 million, 30 September 2014: \$4,002 million). These housing loans were not derecognised from Westpac New Zealand'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 30 June 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2,927 million (30 June 2014: \$3,212 million, 30 September 2014: \$3,360 million).

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

\$ millions	NZ Banking Group			
	Residential Mortgages	30-Jun-15 Unaudited Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Neither past due nor impaired	39,987	2,031	24,587	66,605
Past due assets:				
Less than 90 days past due	1,101	128	324	1,553
At least 90 days past due	50	15	37	102
<b>Total past due assets</b>	<b>1,151</b>	<b>143</b>	<b>361</b>	<b>1,655</b>
Individually impaired assets	63	-	304	367
<b>Total gross loans</b>	<b>41,201</b>	<b>2,174</b>	<b>25,252</b>	<b>68,627</b>
Individually assessed provisions	19	-	119	138
Collectively assessed provisions	58	82	189	329
<b>Total provisions for impairment charges on loans and credit commitments</b>	<b>77</b>	<b>82</b>	<b>308</b>	<b>467</b>
Provision for credit commitments	-	-	(31)	(31)
<b>Total provisions for impairment charges on loans</b>	<b>77</b>	<b>82</b>	<b>277</b>	<b>436</b>
<b>Total net loans</b>	<b>41,124</b>	<b>2,092</b>	<b>24,975</b>	<b>68,191</b>

# Notes to the financial statements

## Note 7 Deposits and other borrowings

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
<b>Deposits and other borrowings at fair value</b>			
Certificates of deposit	1,862	1,230	1,154
<b>Total deposits and other borrowings at fair value</b>	<b>1,862</b>	<b>1,230</b>	<b>1,154</b>
<b>Deposits and other borrowings at amortised cost</b>			
Non-interest bearing, repayable at call	3,890	3,492	3,607
Other interest bearing:			
At call	22,769	19,882	20,620
Term	24,784	24,906	25,189
<b>Total deposits and other borrowings at amortised cost</b>	<b>51,443</b>	<b>48,280</b>	<b>49,416</b>
<b>Total deposits and other borrowings</b>	<b>53,305</b>	<b>49,510</b>	<b>50,570</b>

The NZ Branch held no retail deposits from individuals as at 30 June 2015 (30 June 2014: nil, 30 September 2014: nil).

## Note 8 Other financial liabilities at fair value through income statement

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
<b>Held for trading</b>			
Securities sold short	225	664	605
Securities sold under agreements to repurchase	297	732	467
<b>Total other financial liabilities at fair value through income statement</b>	<b>522</b>	<b>1,396</b>	<b>1,072</b>

## Note 9 Debt issues

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
<b>Short-term debt</b>			
Commercial paper	3,555	2,740	3,019
<b>Total short-term debt</b>	<b>3,555</b>	<b>2,740</b>	<b>3,019</b>
<b>Long-term debt</b>			
Non-domestic medium-term notes	5,100	3,755	3,063
Covered Bonds	2,927	3,212	3,360
Domestic medium-term notes	2,923	3,730	3,150
<b>Total long-term debt</b>	<b>10,950</b>	<b>10,697</b>	<b>9,573</b>
<b>Total debt issues</b>	<b>14,505</b>	<b>13,437</b>	<b>12,592</b>
Debt issues at amortised cost	10,950	10,697	9,573
Debt issues at fair value	3,555	2,740	3,019
<b>Total debt issues</b>	<b>14,505</b>	<b>13,437</b>	<b>12,592</b>
<b>Movement in debt issues</b>			
Balance at beginning of the period/year	12,592	11,645	11,645
Issuance during the period/year	5,789	8,129	10,023
Repayments during the period/year	(4,644)	(5,854)	(9,287)
Effect of foreign exchange movements during the period/year	793	(441)	218
Effect of fair value movements and amortisation adjustments during the period/year	(25)	(42)	(7)
<b>Balance at end of the period/year</b>	<b>14,505</b>	<b>13,437</b>	<b>12,592</b>

As at 30 June 2015, the NZ Banking Group had no New Zealand Government guaranteed debt on issue (30 June 2014: \$1,810 million, 30 September 2014: nil).

# Notes to the financial statements

## Note 10 Related entities

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Controlled entities of the NZ Banking Group as at 30 September 2014 are set out in Note 25 to the financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2014.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 30 June 2015, amounted to \$6,605 million (30 June 2014: \$5,621 million, 30 September 2014: \$5,899 million).

## Note 11 Fair value of financial instruments

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### **Fair valuation control framework**

The NZ 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 that is 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 NZ 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 NZ 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 historic transactions. The use of these inputs will require a high degree of management judgment.

During the period ended 30 June 2015, consistent with emerging market practice, the NZ Banking Group implemented a Funding Valuation Adjustment ('FVA'). FVA represents an estimate of the adjustment to fair value that a market participant would make to incorporate funding costs and benefits that arise in relation to uncollateralised derivative positions.

### **Fair value hierarchy**

The NZ 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 certain NZ Government securities and spot and exchange traded derivatives (30 June 2014: certain NZ Government securities and spot and exchange traded derivatives, 30 September 2014: certain NZ Government securities and spot and exchange traded derivatives).
- **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 and other borrowings at fair value, other financial liabilities at fair value through income statement, debt issues at fair value, certain life insurance assets, trading and available-for-sale debt securities including certificates of deposit, corporate bonds, mortgage-backed securities, inflation-indexed government bonds, local authority and NZ public securities, off-shore securities and securities purchased under agreement to resell; and
  - derivatives including interest rate swaps, cross currency swaps, interest rate forwards, interest rate options, foreign exchange forwards 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 residential mortgage-backed securities ('RMBS'), long-dated NZD caps and inflation indexed derivative instruments (30 June 2014: NZ unlisted equity securities, long-dated NZD caps, long-dated forward rate agreements and inflation indexed derivative instruments, 30 September 2014: NZ unlisted equity securities, RMBS, long-dated NZD caps and inflation indexed derivative 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.

# Notes to the financial statements

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

The following table summarises the attribution of financial instruments measured at fair value to the fair value hierarchy based on the measurement basis after initial recognition:

\$ millions	NZ Banking Group			Total
	Level 1	30-Jun-15 Unaudited Level 2	Level 3 <sup>1</sup>	
<b>Financial assets</b>				
Trading securities and other financial assets designated at fair value	161	3,774	44	3,979
Derivative financial instruments	1	5,331	3	5,335
Available-for-sale securities	1,613	1,772	-	3,385
Life insurance assets	27	226	-	253
Due from related entities	-	1,236	-	1,236
<b>Total financial assets carried at fair value</b>	<b>1,802</b>	<b>12,339</b>	<b>47</b>	<b>14,188</b>
<b>Financial liabilities</b>				
Deposits and other borrowings at fair value	-	1,862	-	1,862
Other financial liabilities at fair value through income statement	179	343	-	522
Derivative financial instruments	2	5,694	3	5,699
Debt issues at fair value	-	3,555	-	3,555
Due to related entities	-	1,724	-	1,724
<b>Total financial liabilities carried at fair value</b>	<b>181</b>	<b>13,178</b>	<b>3</b>	<b>13,362</b>

\$ millions	NZ Banking Group			Total
	Level 1	30-Jun-14 Unaudited Level 2	Level 3 <sup>1</sup>	
<b>Financial assets</b>				
Trading securities and other financial assets designated at fair value	1,146	4,453	-	5,599
Derivative financial instruments	2	3,491	1	3,494
Available-for-sale securities	1,971	892	28	2,891
Life insurance assets	22	266	-	288
Due from related entities	-	973	-	973
<b>Total financial assets carried at fair value</b>	<b>3,141</b>	<b>10,075</b>	<b>29</b>	<b>13,245</b>
<b>Financial liabilities</b>				
Deposits and other borrowings at fair value	-	1,230	-	1,230
Other financial liabilities at fair value through income statement	664	732	-	1,396
Derivative financial instruments	-	3,548	2	3,550
Debt issues at fair value	-	2,740	-	2,740
Due to related entities	-	942	-	942
<b>Total financial liabilities carried at fair value</b>	<b>664</b>	<b>9,192</b>	<b>2</b>	<b>9,858</b>

\$ millions	NZ Banking Group			Total
	Level 1	30-Sep-14 Audited Level 2	Level 3 <sup>1</sup>	
<b>Financial assets</b>				
Trading securities and other financial assets designated at fair value	390	3,078	46	3,514
Derivative financial instruments	11	4,166	3	4,180
Available-for-sale securities	1,975	993	42	3,010
Life insurance assets	31	266	-	297
Due from related entities	-	1,605	-	1,605
<b>Total financial assets carried at fair value</b>	<b>2,407</b>	<b>10,108</b>	<b>91</b>	<b>12,606</b>
<b>Financial liabilities</b>				
Deposits and other borrowings at fair value	-	1,154	-	1,154
Other financial liabilities at fair value through income statement	695	377	-	1,072
Derivative financial instruments	9	4,114	-	4,123
Debt issues at fair value	-	3,019	-	3,019
Due to related entities	-	1,416	-	1,416
<b>Total financial liabilities carried at fair value</b>	<b>704</b>	<b>10,080</b>	<b>-</b>	<b>10,784</b>

<sup>1</sup> Balances within this category of the fair value hierarchy are not considered material to the total Trading securities and other financial assets designated at fair value, total Derivative financial instruments or total Available-for-sale securities balances.

# Notes to the financial statements

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

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs, that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the nine months ended 30 June 2015 (30 June 2014: 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 nine months ended 30 June 2015 (30 June 2014: nil, 30 September 2014: nil).

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

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

\$ millions	30-Jun-15 Unaudited		NZ Banking Group 30-Jun-14 Unaudited		30-Sep-14 Audited	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
<b>Financial assets</b>						
Loans	68,191	68,367	64,226	64,056	65,027	64,896
<b>Total</b>	<b>68,191</b>	<b>68,367</b>	<b>64,226</b>	<b>64,056</b>	<b>65,027</b>	<b>64,896</b>
<b>Financial liabilities</b>						
Deposits and other borrowings	51,443	51,519	48,280	48,335	49,416	49,459
Debt issues	10,950	11,059	10,697	10,861	9,573	9,704
Subordinated debentures	794	787	640	628	710	700
<b>Total</b>	<b>63,187</b>	<b>63,365</b>	<b>59,617</b>	<b>59,824</b>	<b>59,699</b>	<b>59,863</b>

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 reprice frequently, and are of a high credit rating.

## Note 12 Commitments and contingent liabilities

\$ millions	NZ Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
<b>Commitments for capital expenditure</b>			
Due within one year	3	8	3
<b>Lease commitments (all leases are classified as operating leases)</b>			
Premises and sites	240	276	277
Motor vehicles	6	7	7
<b>Total lease commitments</b>	<b>246</b>	<b>283</b>	<b>284</b>
<b>Lease commitments are due as follows:</b>			
One year or less	60	61	64
Between one and five years	147	159	162
Over five years	39	63	58
<b>Total lease commitments</b>	<b>246</b>	<b>283</b>	<b>284</b>
<b>Other contingent liabilities and commitments</b>			
Standby letters of credit and financial guarantees	434	515	510
Trade letters of credit	230	225	247
Non-financial guarantees	607	611	611
Commitments to extend credit	23,714	21,157	21,569
Other commitments	122	-	150
<b>Total other contingent liabilities and commitments</b>	<b>25,107</b>	<b>22,508</b>	<b>23,087</b>

As at 30 June 2015, \$165 million of available-for-sale securities were pledged as collateral for the NZ Banking Group's liabilities under repurchase agreements (30 June 2014: nil, 30 September 2014: \$90 million) which, together with the encumbered Trading securities and other financial assets designated at fair value of \$132 million (refer to Note 4), are recorded within Other financial liabilities at fair value through income statement of \$297 million (refer to Note 8).

In March 2013, litigation funder, Litigation Lending Services (NZ) Limited, announced potential representative actions against five New Zealand banks in relation to certain fees. Westpac New Zealand is the defendant in proceedings filed on 20 August 2014 by the plaintiff group. Proceedings have also been filed against three other banks. At this stage the impact of the proceedings against Westpac New Zealand 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 NZ Banking Group.

# Notes to the financial statements

## Note 13 Segment information

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

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:

- 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 for a range of customers; and
- Corporate and Institutional provides a broad range of financial services for corporate, agricultural, institutional and government customers, and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

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.

# Notes to the financial statements

## Note 13 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items <sup>1</sup>	
<b>Nine months ended 30 June 2015 (Unaudited)</b>					
Net interest income	601	280	287	154	1,322
Non-interest income	138	144	155	2	439
<b>Net operating income</b>	<b>739</b>	<b>424</b>	<b>442</b>	<b>156</b>	<b>1,761</b>
Net operating income from external customers	989	462	760	(450)	1,761
Net internal interest expense	(250)	(38)	(318)	606	-
<b>Net operating income</b>	<b>739</b>	<b>424</b>	<b>442</b>	<b>156</b>	<b>1,761</b>
Operating expenses	(118)	(58)	(60)	(444)	(680)
Impairment (charges)/recoveries on loans	(30)	1	(23)	7	(45)
<b>Profit before income tax expense</b>	<b>591</b>	<b>367</b>	<b>359</b>	<b>(281)</b>	<b>1,036</b>
<b>Total gross loans</b>	<b>31,251</b>	<b>15,289</b>	<b>22,105</b>	<b>(18)</b>	<b>68,627</b>
<b>Total deposits</b>	<b>24,636</b>	<b>14,839</b>	<b>11,968</b>	<b>1,862</b>	<b>53,305</b>
<b>Nine months ended 30 June 2014 (Unaudited)</b>					
Net interest income	542	257	295	80	1,174
Non-interest income	147	146	134	94	521
<b>Net operating income</b>	<b>689</b>	<b>403</b>	<b>429</b>	<b>174</b>	<b>1,695</b>
Net operating income from external customers	918	433	713	(369)	1,695
Net internal interest expense	(229)	(30)	(284)	543	-
<b>Net operating income</b>	<b>689</b>	<b>403</b>	<b>429</b>	<b>174</b>	<b>1,695</b>
Operating expenses	(117)	(58)	(59)	(418)	(652)
Impairment (charges)/recoveries on loans	(33)	(1)	16	13	(5)
<b>Profit before income tax expense</b>	<b>539</b>	<b>344</b>	<b>386</b>	<b>(231)</b>	<b>1,038</b>
<b>Total gross loans</b>	<b>29,881</b>	<b>14,507</b>	<b>20,405</b>	<b>(124)</b>	<b>64,669</b>
<b>Total deposits</b>	<b>22,826</b>	<b>13,566</b>	<b>11,888</b>	<b>1,230</b>	<b>49,510</b>
<b>Year ended 30 September 2014 (Audited)</b>					
Net interest income	738	350	394	108	1,590
Non-interest income	198	193	194	92	677
<b>Net operating income</b>	<b>936</b>	<b>543</b>	<b>588</b>	<b>200</b>	<b>2,267</b>
Net operating income from external customers	1,248	584	979	(544)	2,267
Net internal interest expense	(312)	(41)	(391)	744	-
<b>Net operating income</b>	<b>936</b>	<b>543</b>	<b>588</b>	<b>200</b>	<b>2,267</b>
Operating expenses	(155)	(77)	(79)	(557)	(868)
Impairment (charges)/recoveries on loans	(36)	(2)	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
<b>Profit before income tax expense</b>	<b>745</b>	<b>464</b>	<b>509</b>	<b>(344)</b>	<b>1,374</b>
<b>Total gross loans</b>	<b>30,174</b>	<b>14,649</b>	<b>20,757</b>	<b>(111)</b>	<b>65,469</b>
<b>Total deposits</b>	<b>23,217</b>	<b>13,753</b>	<b>12,446</b>	<b>1,154</b>	<b>50,570</b>

<sup>1</sup> Included in the reconciling items for total operating expenses is \$460 million (30 June 2014: \$425 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 14 Insurance business

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

\$ millions	NZ Banking Group
	30-Jun-15 Unaudited
Total assets	195
As a percentage of total assets of the NZ Banking Group	0.22%

# Notes to the financial statements

## Note 15 Risk management

### 15.1 Credit risk

#### The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 June 2015 (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 NZ Banking Group 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 1 of Schedule 9 to the Order. For these loans, the NZ Banking Group 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)	NZ Banking Group 30-Jun-15 Unaudited			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	33,602	5,163	2,206	40,971
Undrawn commitments and other off-balance sheet exposures	7,571	432	159	8,162
<b>Value of exposures</b>	<b>41,173</b>	<b>5,595</b>	<b>2,365</b>	<b>49,133</b>

### 15.2 Market risk

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

\$ millions	NZ Banking Group 30-Jun-15 Unaudited	
	Implied Risk-weighted Exposure	Notional Capital Charge
<b>End-of-period</b>		
Interest rate risk	3,290	263
Foreign currency risk	9	1
Equity risk	-	-

### 15.3 Liquidity risk

#### 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.

\$ millions	NZ Banking Group 30-Jun-15 Unaudited
Cash and balances with central banks	1,958
Due from other financial institutions	135
Supranational securities	1,168
NZ Government securities	2,259
NZ public securities	1,290
NZ corporate securities	1,956
Residential mortgage-backed securities	3,992
<b>Total liquid assets</b>	<b>12,758</b>

# Notes to the financial statements

## 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 NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 30 June 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2015 was nil.

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

- as at 30 June 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2015 was nil.

The peak end-of-day aggregate credit exposures 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 Overseas Banking Group's equity as at 31 March 2015.

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

## Note 17 Overseas Bank and Overseas Banking Group capital adequacy

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

%	30-Jun-15 Unaudited	30-Jun-14 Unaudited
<b>Overseas Banking Group</b> <sup>1,2</sup>		
Common Equity Tier One Capital ratio	9.0	8.3
Additional Tier One Capital ratio	1.5	1.7
Tier One Capital ratio	10.5	10.0
Tier Two Capital ratio	1.9	1.7
Total Regulatory Capital ratio	12.4	11.7
<b>Overseas Bank (Extended Licensed Entity)</b> <sup>1,2</sup>		
Common Equity Tier One Capital ratio	9.1	8.2
Additional Tier One Capital ratio	1.7	1.9
Tier One Capital ratio	10.8	10.1
Tier Two Capital ratio	2.1	2.0
Total Regulatory Capital ratio	12.9	12.1

<sup>1</sup> The capital ratios represent information mandated by APRA.

<sup>2</sup> The capital ratios of the Overseas Banking Group and the Overseas Bank (Extended Licensed Entity) are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website ([www.westpac.com.au](http://www.westpac.com.au)).

The Overseas Banking Group is accredited by APRA to apply the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as the Basel III (internal models based) approach. With this accreditation, the Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group's website ([www.westpac.com.au](http://www.westpac.com.au)). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 June 2015. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

# Notes to the financial statements

## Note 18 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the six months ended 31 March 2015.

<b>Profitability</b>		<b>2015</b>
Net profit after tax for the six months ended 31 March 2015 (A\$ millions)		<b>3,642</b>
Net profit after tax (for the six months ended 31 March 2015) as a percentage of average total assets		<b>1.0%</b>

<b>Total assets and equity</b>		<b>2015</b>
Total assets (A\$ millions)		<b>795,961</b>
Percentage change in total assets over the 12 months ended 31 March 2015		<b>9.1%</b>
Total equity (A\$ millions)		<b>50,317</b>

<b>Asset quality</b>		<b>2015</b>
Total individually impaired assets <sup>1, 2</sup> (A\$ millions)		<b>2,148</b>
As a percentage of total assets		<b>0.3%</b>
Total individual credit impairment allowance <sup>3</sup> (A\$ millions)		<b>1,027</b>
As a percentage of total individually impaired assets		<b>47.8%</b>
Total collective credit impairment allowance <sup>3</sup> (A\$ millions)		<b>2,699</b>

<sup>1</sup> Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A\$481 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

<sup>3</sup> Total individual credit impairment allowance and total collective credit impairment allowance include A\$221 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

## Note 19 Events after the reporting date

The Board of Westpac New Zealand has resolved to issue up to AU\$1.25 billion of convertible term subordinated notes to the Overseas Bank ('**Tier Two Notes**'). The Tier Two Notes are expected to be issued on 8 September 2015 to the London Branch of the Overseas Bank and will qualify as Tier Two capital for Westpac New Zealand. The final amount of Tier Two Notes to be issued will be determined closer to the issue date, taking into account the regulatory capital position of Westpac New Zealand at that time.



