
Westpac Banking Corporation - New Zealand Banking Group Disclosure Statement

For the three months ended 31 December 2015



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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 (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

In late 2014, Australian Prudential Regulation Authority ('**APRA**') 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. On 19 November 2015, APRA informed the Overseas Bank that its Extended Licensed Entity ('**ELE**') non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of five percent of the Overseas Bank's Level 1 Tier 1 Capital.

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures.

Further, APRA imposed two conditions over the transition period – the percentage excess above the five percent limit as at 30 June 2015, is to reduce by at least one fifth by the end of each calendar year over the transition period, and the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until the Overseas Bank is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. As at 31 December 2015, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the new limit was approximately 7.6% of Level 1 Tier 1 Capital of the Overseas Bank. Non-equity exposure would need to reduce by approximately \$1 billion from the 31 December 2015 position to comply with the 5% limit. The Overseas Bank expects to achieve compliance with the 5% limit within the transition period.

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

General matters

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

Catrina 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

There have been no changes to the composition of the Overseas Bank's Board of Directors (the '**Board**') since 30 September 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

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

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

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

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2015 and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

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

Conditions of registration

The conditions of registration imposed on the Overseas Bank in New Zealand were amended on 28 October 2015 with effect from 1 November 2015. The amendments impose revised high loan to value ratio ('LVR') restrictions in line with the revised Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19) and remove certain conditions relating to high-LVR restrictions.

The new high-LVR restrictions:

- restrict new residential property investment loans in the Auckland region at LVRs of greater than 70 percent to 5 percent of the total of new residential property investment loans in Auckland;
- retain the existing 10 percent limit for new owner-occupier mortgage loans in the Auckland region at LVRs greater than 80 percent; and
- increase the limit on new residential mortgage loans at LVRs greater than 80 percent outside of Auckland to 15 percent of the total of new residential mortgage loans outside of Auckland.

Superseded references to the Financial Reporting Act 1993 have also been removed from the conditions.

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

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 three months ended 31 December 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 24th day of February 2016

Consolidated income statement for the three months ended 31 December 2015

\$ millions	Note	NZ Banking Group		
		Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Interest income		1,087	1,109	4,451
Interest expense		(643)	(678)	(2,670)
Net interest income		444	431	1,781
Non-interest income	2	139	149	590
Net operating income		583	580	2,371
Operating expenses		(236)	(226)	(943)
Impairment recoveries/(charges) on loans	3	1	(19)	(47)
Operating profit		348	335	1,381
Profit before income tax expense		348	335	1,381
Income tax expense		(97)	(91)	(375)
Profit after income tax expense		251	244	1,006
Profit after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		251	243	1,003
Non-controlling interests		-	1	3
		251	244	1,006

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 three months ended 31 December 2015

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Profit after income tax expense	251	244	1,006
Other comprehensive expense which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised losses from changes in fair value of available-for-sale securities	(7)	-	(8)
Transferred to the income statement (refer to Note 2)	-	-	(19)
Income tax effect	2	-	8
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(31)	(65)	(217)
Transferred to the income statement	35	6	39
Income tax effect	(1)	16	50
Total other comprehensive expense which may be reclassified subsequently to the income statement	(2)	(43)	(147)
Other comprehensive expense which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	-	-	(7)
Income tax effect	-	-	2
Total other comprehensive expense which will not be reclassified subsequently to the income statement	-	-	(5)
Total other comprehensive expense, net of tax	(2)	(43)	(152)
Total comprehensive income	249	201	854
Total comprehensive income attributable to:			
Head office account and owners of NZ Banking Group	249	200	851
Non-controlling interests	-	1	3
	249	201	854

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 31 December 2015

		NZ Banking Group		
\$ millions	Note	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Assets				
Cash and balances with central banks		1,785	2,047	939
Due from other financial institutions		509	569	168
Trading securities and other financial assets designated at fair value	4	4,837	4,948	4,215
Derivative financial instruments		3,982	3,890	5,459
Available-for-sale securities		3,386	3,091	3,421
Loans	5, 6	70,551	66,106	69,576
Life insurance assets		278	308	265
Due from related entities		2,384	852	3,451
Investment in associate		-	48	-
Property, plant and equipment		156	172	164
Deferred tax assets		166	144	167
Goodwill and other intangible assets		653	714	658
Other assets		382	267	378
Total assets		89,069	83,156	88,861
Liabilities				
Due to other financial institutions		475	490	837
Deposits and other borrowings	8	55,530	53,134	52,986
Other financial liabilities at fair value through income statement	9	450	634	279
Derivative financial instruments		6,069	4,637	6,717
Debt issues	10	14,061	12,714	14,685
Current tax liabilities		39	36	25
Provisions		67	64	92
Other liabilities		611	595	775
Total liabilities excluding related entities liabilities		77,302	72,304	76,396
Subordinated debentures		1,882	701	1,984
Due to related entities		3,443	4,451	4,288
Total related entities liabilities		5,325	5,152	6,272
Total liabilities		82,627	77,456	82,668
Net assets		6,442	5,700	6,193
Equity				
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		549	469	524
Total head office account		1,849	1,769	1,824
NZ Banking Group equity				
Ordinary share capital		143	143	143
Retained profits		4,554	3,779	4,328
Available-for-sale securities reserve		11	35	16
Cash flow hedge reserve		(115)	(33)	(118)
Total equity attributable to owners of the NZ Banking Group		4,593	3,924	4,369
Non-controlling interests		-	7	-
Total equity		6,442	5,700	6,193
Interest earning and discount bearing assets		82,735	77,061	80,925
Interest and discount bearing liabilities		70,553	67,202	69,623

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 three months ended 31 December 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		Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve			
	Branch Capital	Retained Profits							
As at 1 October 2014 (Audited)	1,300	450	143	3,555	35	10	5,493	6	5,499
Three months ended 31 December 2014 (Unaudited)									
Profit after income tax expense	-	19	-	224	-	-	243	1	244
Net losses from changes in fair value	-	-	-	-	-	(65)	(65)	-	(65)
Income tax effect	-	-	-	-	-	18	18	-	18
Transferred to income statement	-	-	-	-	-	6	6	-	6
Income tax effect	-	-	-	-	-	(2)	(2)	-	(2)
Total comprehensive income for the three months ended 31 December 2014	-	19	-	224	-	(43)	200	1	201
As at 31 December 2014 (Unaudited)	1,300	469	143	3,779	35	(33)	5,693	7	5,700
Year ended 30 September 2015 (Audited)									
Profit after income tax expense	-	74	-	929	-	-	1,003	3	1,006
Net losses from changes in fair value	-	-	-	-	(8)	(217)	(225)	-	(225)
Income tax effect	-	-	-	-	3	61	64	-	64
Transferred to income statement	-	-	-	-	(19)	39	20	-	20
Income tax effect	-	-	-	-	5	(11)	(6)	-	(6)
Remeasurement of employee defined benefit obligations	-	-	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	-	-	2	-	-	2	-	2
Total comprehensive income for the year ended 30 September 2015	-	74	-	924	(19)	(128)	851	3	854
Transactions with owners:									
Dividends paid on ordinary shares	-	-	-	(151)	-	-	(151)	(8)	(159)
Derecognition of non-controlling interest	-	-	-	-	-	-	-	(1)	(1)
As at 30 September 2015 (Audited)	1,300	524	143	4,328	16	(118)	6,193	-	6,193
Three months ended 31 December 2015 (Unaudited)									
Profit after income tax expense	-	25	-	226	-	-	251	-	251
Net losses from changes in fair value	-	-	-	-	(7)	(31)	(38)	-	(38)
Income tax effect	-	-	-	-	2	9	11	-	11
Transferred to income statement	-	-	-	-	-	35	35	-	35
Income tax effect	-	-	-	-	-	(10)	(10)	-	(10)
Total comprehensive income for the three months ended 31 December 2015	-	25	-	226	(5)	3	249	-	249
As at 31 December 2015 (Unaudited)	1,300	549	143	4,554	11	(115)	6,442	-	6,442

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 three months ended 31 December 2015

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Cash flows from operating activities			
Interest income received	1,091	1,119	4,475
Interest expense paid	(683)	(698)	(2,647)
Non-interest income received	83	122	511
Operating expenses paid	(234)	(273)	(813)
Income tax paid	(80)	(92)	(369)
Cash flows from operating activities before changes in operating assets and liabilities	177	178	1,157
Net (increase)/decrease in:			
Due from other financial institutions	(293)	(139)	105
Trading securities and other financial assets designated at fair value	(846)	(1,392)	(537)
Loans	(1,004)	(1,082)	(4,489)
Due from related entities	883	14	(2,250)
Other assets	1	(1)	-
Net increase/(decrease) in:			
Due to other financial institutions	(362)	(651)	(304)
Deposits and other borrowings	2,544	2,527	2,375
Other financial liabilities at fair value through income statement	171	(438)	(793)
Other liabilities	(8)	40	(9)
Net movement in external and related entity derivative financial instruments	(362)	828	2,964
Net cash provided by/(used in) operating activities	901	(116)	(1,781)
Cash flows from investing activities			
Purchase of available-for-sale securities	-	(198)	(930)
Proceeds from maturities/sale of available-for-sale securities	-	30	506
Net movement in life insurance assets	(13)	(11)	32
Proceeds from disposal of subsidiary	-	-	7
Cash receipts from associate	-	-	48
Purchase of capitalised computer software	(10)	(15)	(39)
Proceeds from disposal of software	-	-	2
Purchase of property, plant and equipment	(2)	(3)	(24)
Net cash used in investing activities	(25)	(197)	(398)
Cash flows from financing activities			
Net movement in debt issues	402	449	651
Net movement in due to related entities	(384)	(177)	(743)
Settlement of promissory note	-	-	(48)
Proceeds from issuance of subordinated debentures	-	-	1,172
Dividends paid to ordinary shareholders	-	-	(151)
Dividends paid on minority shareholders	-	-	(8)
Net cash provided by financing activities	18	272	873
Net increase/(decrease) in cash and cash equivalents	894	(41)	(1,306)
Cash and cash equivalents at beginning of the period/year	1,037	2,343	2,343
Cash and cash equivalents at end of the period/year	1,931	2,302	1,037
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	300	253	249
Cash and balances with central banks	1,485	1,794	690
Due from other financial institutions	146	255	98
Cash and cash equivalents at end of the period/year	1,931	2,302	1,037

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

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 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 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2015. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

These financial statements were authorised for issue by the Overseas Bank's Board of Directors (the '**Board**') on 24 February 2016. 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 2015.

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		
	Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Fees and commissions			
Transaction fees and commissions	42	55	194
Lending fees (loan and risk)	16	17	65
Other non-risk fee income	13	10	45
Total fees and commissions	71	82	304
Wealth management revenue			
Fees from trust and other fiduciary activities	11	9	38
Net life insurance income and change in policy liabilities	22	27	100
Total wealth management revenue	33	36	138
Trading income			
Foreign exchange trading	23	26	103
Other trading products	8	1	14
Total trading income	31	27	117
Net ineffectiveness on qualifying hedges	2	(2)	(4)
Other non-interest income			
Dividend income	-	-	2
Gain on sale of available-for-sale securities	-	-	19
Gain on disposal of a subsidiary	-	-	4
Other	2	6	10
Total other non-interest income	2	6	35
Total non-interest income	139	149	590

Note 3 Impairment (recoveries)/charges on loans

\$ millions	NZ Banking Group
Three months ended 31 December 2015 (Unaudited)	
Collectively assessed provisions	(10)
Individually assessed provisions	-
Bad debts written-off directly to the income statement	9
Total impairment recoveries on loans	(1)
Three months ended 31 December 2014 (Unaudited)	
Collectively assessed provisions	(10)
Individually assessed provisions	21
Bad debts written-off directly to the income statement	8
Total impairment charges on loans	19
Year ended 30 September 2015 (Audited)	
Collectively assessed provisions	(23)
Individually assessed provisions	34
Bad debts written-off directly to the income statement	36
Total impairment charges on loans	47

Notes to the financial statements

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

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Government and semi-government securities	1,431	1,926	1,813
Debt securities	2,768	2,599	2,124
Securities purchased under agreement to resell	638	423	278
Total trading securities and financial assets designated at fair value	4,837	4,948	4,215

As at 31 December 2015, \$279 million of trading securities and other financial assets designated at fair value were encumbered through repurchase agreements as part of standard terms of transactions with other banks (31 December 2014: \$145 million, 30 September 2015: \$219 million).

Note 5 Loans

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Overdrafts	1,197	1,072	1,249
Credit card outstandings	1,581	1,471	1,537
Money market loans	1,291	1,041	1,386
Term loans:			
Housing	42,514	40,307	42,121
Non-housing	23,180	21,670	22,475
Other	1,196	1,000	1,223
Total gross loans	70,959	66,561	69,991
Provisions for impairment charges on loans	(408)	(455)	(415)
Total net loans	70,551	66,106	69,576

As at 31 December 2015, \$4,519 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') (31 December 2014: \$3,797 million, 30 September 2015: \$4,821 million). These housing loans were not derecognised from Westpac New Zealand's balance sheet in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2015. As at 31 December 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$3,957 million (31 December 2014: \$3,205 million, 30 September 2015: \$4,022 million).

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

\$ millions	NZ Banking Group	
	31-Dec-15 Unaudited	Total
Neither past due nor impaired		69,270
Past due and not impaired assets:		
Less than 90 days past due		1,294
At least 90 days past due		90
Total past due and not impaired assets		1,384
Individually impaired assets		305
Total gross loans		70,959
Individually assessed provisions		116
Collectively assessed provisions		325
Total provisions for impairment charges on loans and credit commitments		441
Provision for credit commitments		(33)
Total provisions for impairment charges on loans		408
Total net loans		70,551

Notes to the financial statements

Note 7 Financial assets pledged as collateral

In addition to assets supporting the CB Programme, the NZ Banking Group has provided collateral to secure liabilities as part of standard terms of transaction with other financial institutions. The carrying value of financial assets pledged as collateral to secure liabilities is:

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Cash	363	314	70
Securities pledged under repurchase agreements	279	216	220
Total amount pledged to secure liabilities (excluding CB Programme)	642	530	290

Note 8 Deposits and other borrowings

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	1,407	1,537	1,070
Total deposits and other borrowings at fair value	1,407	1,537	1,070
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	4,300	3,853	4,032
Other interest bearing:			
At call	25,029	22,211	23,871
Term	24,794	25,533	24,013
Total deposits and other borrowings at amortised cost	54,123	51,597	51,916
Total deposits and other borrowings	55,530	53,134	52,986

The NZ Branch held no retail deposits from individuals as at 31 December 2015 (31 December 2014: nil, 30 September 2015: nil).

Note 9 Other financial liabilities at fair value through income statement

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Held for trading			
Securities sold short	171	418	60
Securities sold under agreements to repurchase	279	216	219
Total other financial liabilities at fair value through income statement	450	634	279

Notes to the financial statements

Note 10 Debt issues

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Short-term debt			
Commercial paper	2,423	2,492	2,716
Total short-term debt	2,423	2,492	2,716
Long-term debt			
Non-domestic medium-term notes	4,766	3,918	5,024
Covered Bonds	3,957	3,205	4,022
Domestic medium-term notes	2,915	3,099	2,923
Total long-term debt	11,638	10,222	11,969
Total debt issues	14,061	12,714	14,685
Debt issues at amortised cost	11,638	10,222	11,969
Debt issues at fair value	2,423	2,492	2,716
Total debt issues	14,061	12,714	14,685
Movement in debt issues			
Balance at beginning of the period/year	14,685	12,592	12,592
Issuance during the period/year	1,371	1,927	7,775
Repayments during the period/year	(969)	(1,478)	(7,124)
Effect of foreign exchange movements during the period/year	(1,010)	(319)	1,464
Effect of fair value movements and amortisation adjustments during the period/year	(16)	(8)	(22)
Balance at end of the period/year	14,061	12,714	14,685

Notes to the financial statements

Note 11 Related entities

Controlled entities of the NZ Banking Group as at 30 September 2015 are set out in Note 24 to the financial statements included in the NZ Banking Group's Disclosure Statement for the year ended 30 September 2015.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 December 2015, amounted to \$6,493 million (31 December 2014: \$5,180 million, 30 September 2015: \$7,384 million). The disclosure of the amount as at 30 September 2015 was omitted from the 30 September 2015 Disclosure Statement.

Note 12 Fair value of financial instruments

Fair Valuation Control Framework

The NZ Banking Group's control environment uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the party that undertakes the transaction. This framework formalises the policies and procedures used by the NZ Banking Group to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to the revaluation of financial instruments, independent price verification, fair value adjustments and financial reporting. The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

Fair value hierarchy

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

- **Level 1**
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one in which prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Valuation of Level 1 instruments requires little or no management judgment.
- **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. The financial instruments included in this category are mainly over-the-counter derivatives with observable market inputs and financial instruments with fair value derived from consensus pricing with sufficient contributors.
- **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.

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

Notes to the financial statements

Note 12 Fair value of financial instruments (continued)

Financial instruments measured at fair value

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 31-Dec-15 Unaudited			
	Level 1	Level 2	Level 3 ¹	Total
Financial assets				
Trading securities and other financial assets designated at fair value	155	4,638	44	4,837
Derivative financial instruments	-	3,978	4	3,982
Available-for-sale securities	1,602	1,784	-	3,386
Life insurance assets	13	265	-	278
Due from related entities	-	841	-	841
Total financial assets carried at fair value	1,770	11,506	48	13,324

Financial liabilities				
Deposits and other borrowings at fair value	-	1,407	-	1,407
Other financial liabilities at fair value through income statement	152	298	-	450
Derivative financial instruments	-	6,069	-	6,069
Debt issues at fair value	-	2,423	-	2,423
Due to related entities	-	931	-	931
Total financial liabilities carried at fair value	152	11,128	-	11,280

\$ millions	NZ Banking Group 31-Dec-14 Unaudited			
	Level 1	Level 2	Level 3 ¹	Total
Financial assets				
Trading securities and other financial assets designated at fair value	185	4,717	46	4,948
Derivative financial instruments	3	3,881	6	3,890
Available-for-sale securities	1,992	1,057	42	3,091
Life insurance assets	32	276	-	308
Due from related entities	-	701	-	701
Total financial assets carried at fair value	2,212	10,632	94	12,938

Financial liabilities				
Deposits and other borrowings at fair value	-	1,537	-	1,537
Other financial liabilities at fair value through income statement	277	357	-	634
Derivative financial instruments	3	4,634	-	4,637
Debt issues at fair value	-	2,492	-	2,492
Due to related entities	-	943	-	943
Total financial liabilities carried at fair value	280	9,963	-	10,243

\$ millions	NZ Banking Group 30-Sep-15 Audited			
	Level 1	Level 2	Level 3 ¹	Total
Financial assets				
Trading securities and other financial assets designated at fair value	161	4,010	44	4,215
Derivative financial instruments	7	5,448	4	5,459
Available-for-sale securities	1,619	1,802	-	3,421
Life insurance assets	21	244	-	265
Due from related entities	-	1,030	-	1,030
Total financial assets carried at fair value	1,808	12,534	48	14,390

Financial liabilities				
Deposits and other borrowings at fair value	-	1,070	-	1,070
Other financial liabilities at fair value through income statement	41	238	-	279
Derivative financial instruments	4	6,708	5	6,717
Debt issues at fair value	-	2,716	-	2,716
Due to related entities	-	1,358	-	1,358
Total financial liabilities carried at fair value	45	12,090	5	12,140

¹ 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 12 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 three months ended 31 December 2015 (31 December 2014: no material changes in fair value, 30 September 2015: 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 2015 (31 December 2014: nil, 30 September 2015: nil).

Financial instruments not measured at 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	NZ Banking Group					
	31-Dec-15 Unaudited		31-Dec-14 Unaudited		30-Sep-15 Audited	
	Total	Carrying Amount	Estimated Fair Value	Total	Carrying Amount	Estimated Fair Value
Financial assets						
Loans		70,551	70,686		66,106	66,006
Total		70,551	70,686		66,106	66,006
Financial liabilities						
Deposits and other borrowings		54,123	54,206		51,597	51,650
Debt issues		11,638	11,656		10,222	10,332
Subordinated debentures		1,882	1,865		701	692
Due to related entities		2,512	2,524		3,508	3,508
Total		70,155	70,251		66,028	66,182

For cash and balances with central banks, due from and due to other financial institutions, non-derivative balances due from 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.

Note 13 Contingent liabilities, contingent assets and credit commitments

\$ millions	NZ Banking Group		
	31-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Commitments for capital expenditure			
Due within one year	5	3	5
Lease commitments (all leases are classified as operating leases)			
Premises and sites	221	264	233
Motor vehicles	4	7	5
Total lease commitments	225	271	238
Lease commitments are due as follows:			
One year or less	56	62	58
Between one and five years	141	157	146
Over five years	28	52	34
Total lease commitments	225	271	238
Credit risk-related instruments			
Standby letters of credit and financial guarantees ¹	377	498	447
Trade letters of credit ²	248	263	224
Non-financial guarantees ³	559	625	561
Commitments to extend credit ⁴	23,466	21,624	23,834
Other commitments ⁵	-	110	220
Total credit risk-related instruments	24,650	23,120	25,286

¹ Standby letters of credit are undertakings to pay, against presentation documents, an obligation in the event of a default by a customer. Guarantees are unconditional undertakings given to support the obligations of a customer to third parties. The NZ Banking Group may hold cash as collateral for certain guarantees issued.

² Trade letters of credit are undertakings by the NZ Banking Group to pay or accept drafts drawn by an overseas supplier of goods against presentation of documents in the event of default by a customer.

³ Non-financial guarantees include undertakings that oblige the NZ Banking Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.

⁴ Commitments to extend credit include all obligations on the part of the NZ Banking Group to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

⁵ Other commitments include underwriting facilities.

Notes to the financial statements

Note 13 Contingent liabilities, contingent assets and credit commitments (continued)

As at 31 December 2015, no available-for-sale securities were pledged as collateral for the NZ Banking Group's liabilities under repurchase agreements (31 December 2014: \$71 million, 30 September 2015: nil).

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.

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

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

Note 14 Segment information

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

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

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

Comparative information for the three months ended 31 December 2014 has been restated following a change to the NZ Banking Group's operating segments in the last quarter of the year ended 30 September 2015 as a result of an internal re-organisation of the business. In the current reporting period, a further change has been made to allocate head office operating expenses and net internal interest expense to the NZ Banking Group's operating segments. Comparative information has been restated to ensure consistent presentation with the current reporting period.

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

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

Reconciling items primarily represent:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments*;
- 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 14 Segment information (continued)

\$ millions	NZ Banking Group				Total
	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	
Three months ended 31 December 2015 (Unaudited)					
Net interest income	248	187	(1)	10	444
Non-interest income	44	67	32	(4)	139
Net operating income	292	254	31	6	583
Net operating income from external customers	396	372	32	(217)	583
Net internal interest expense	(104)	(118)	(1)	223	-
Net operating income	292	254	31	6	583
Operating expenses	(167)	(62)	(8)	1	(236)
Impairment (charges)/recoveries on loans	(10)	11	-	-	1
Profit before income tax expense	115	203	23	7	348
Total gross loans	38,785	32,176	-	(2)	70,959
Total deposits	31,661	22,462	-	1,407	55,530
Three months ended 31 December 2014 (Unaudited)					
Net interest income	244	179	(2)	10	431
Non-interest income	52	65	29	3	149
Net operating income	296	244	27	13	580
Net operating income from external customers	386	349	29	(184)	580
Net internal interest expense	(90)	(105)	(2)	197	-
Net operating income	296	244	27	13	580
Operating expenses	(155)	(59)	(8)	(4)	(226)
Impairment charges on loans	(12)	(7)	-	-	(19)
Profit before income tax expense	129	178	19	9	335
Total gross loans	36,846	29,739	-	(24)	66,561
Total deposits	29,303	22,294	-	1,537	53,134
Year ended 30 September 2015 (Unaudited)					
Net interest income	984	718	(7)	86	1,781
Non-interest income	195	259	120	16	590
Net operating income	1,179	977	113	102	2,371
Net operating income from external customers	1,550	1,419	121	(719)	2,371
Net internal interest expense	(371)	(442)	(8)	821	-
Net operating income	1,179	977	113	102	2,371
Operating expenses	(626)	(233)	(30)	(54)	(943)
Impairment (charges)/recoveries on loans	(27)	(21)	-	1	(47)
Profit before income tax expense	526	722	83	50	1,381
Total gross loans	38,225	31,746	-	20	69,991
Total deposits	31,153	20,763	-	1,070	52,986

Note 15 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	
	31-Dec-15 Unaudited	
Total assets		219
As a percentage of total assets of the NZ Banking Group		0.25%

Notes to the financial statements

Note 16 Risk management

16.1 Credit risk

The NZ Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 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 31-Dec-15 Unaudited			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	35,143	5,100	2,018	42,261
Undrawn commitments and other off-balance sheet exposures	7,969	442	162	8,573
Value of exposures	43,112	5,542	2,180	50,834

16.2 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 31-Dec-15 Unaudited	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	2,494	200
Foreign currency risk	10	1
Equity risk	-	-

16.3 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 31-Dec-15 Unaudited	
Cash and balances with central banks		1,785
Due from other financial institutions		146
Supranational securities		1,167
NZ Government securities		2,708
NZ public securities		1,118
NZ corporate securities		2,506
Residential mortgage-backed securities		3,992
Total liquid assets		13,422

Notes to the financial statements

Note 17 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 31 December 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 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 31 December 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 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 30 September 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 18 Overseas Bank and Overseas Banking Group capital adequacy

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

%	31-Dec-15 Unaudited	31-Dec-14 Unaudited
Overseas Banking Group ^{1,2}		
Common Equity Tier One Capital ratio	10.2	8.4
Additional Tier One Capital ratio	1.8	1.5
Tier One Capital ratio	12.0	9.9
Tier Two Capital ratio	1.9	1.7
Total Regulatory Capital ratio	13.9	11.6
Overseas Bank (Extended Licensed Entity) ^{1,2}		
Common Equity Tier One Capital ratio	10.4	8.4
Additional Tier One Capital ratio	2.0	1.7
Tier One Capital ratio	12.4	10.1
Tier Two Capital ratio	2.1	1.9
Total Regulatory Capital ratio	14.5	12.0

¹ The capital ratios represent information mandated by APRA.

² The capital ratios of the Overseas Banking Group and the Overseas Bank (Extended License 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).

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). 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 31 December 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 19 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2015.

Profitability	30-Sep-15
Net profit after tax for the year ended 30 September 2015 (A\$ millions)	8,068
Net profit after tax (for the year ended 30 September 2015) as a percentage of average total assets	1.0%

Total assets and equity	30-Sep-15
Total assets (A\$ millions)	812,156
Percentage change in total assets over the year ended 30 September 2015	5.4%
Total equity (A\$ millions)	53,915

Asset quality	30-Sep-15
Total individually impaired assets ^{1, 2} (A\$ millions)	1,895
As a percentage of total assets	0.2%
Total individual credit impairment allowance ³ (A\$ millions)	877
As a percentage of total individually impaired assets	46.3%
Total collective credit impairment allowance ³ (A\$ millions)	2,663

¹ Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A\$440 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

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

³ Total individual credit impairment allowance and total collective credit impairment allowance both include A\$208 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.

