Westpac New Zealand Limited
Disclosure Statement

For the nine months ended 30 June 2016

Contents

General information and definitions

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

In this Disclosure Statement, reference is made to:

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

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

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 Westpac Banking Corporation (the '**Ultimate Parent Bank**') that its Extended Licensed Entity ('**ELE**') non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of five percent of the Ultimate Parent Bank's Level 1 Tier 1 capital.

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the 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 Ultimate Parent 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. As at 30 June 2016, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit was approximately 6.8% of Level 1 Tier 1 capital of the Ultimate Parent Bank. Non-equity exposure would need to reduce by approximately $0.8 billion from the 30 June 2016 position to comply with the 5% limit. The Ultimate Parent Bank expects to achieve compliance with the 5% limit within the transition period.

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

Directors

Mary Patricia Leonie Quin was appointed as a Director of the Bank on 18 May 2016. There have been no other changes in the composition of the Board of Directors of the Bank since 30 September 2015.

Credit ratings

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

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

On 7 July 2016, S&P Global Ratings ('**S&P**') affirmed the Bank's credit rating at AA-, however, as a result of S&P revising the outlook for the Australian sovereign rating to 'negative' from 'stable', the Bank's outlook was also revised to 'negative' from 'stable'. On 18 August 2016, Moody's Investors Service ('**Moody's**') affirmed the Bank's credit rating at Aa3, however, as a result of Moody's revising the outlook for the Ultimate Parent Bank to 'negative' from 'stable' reflecting Moody's expectation of a more challenging operating environment for banks in Australia for the remainder of 2016 and beyond, the Bank's outlook was also revised to 'negative' from 'stable'. There have been no changes to the Bank's credit rating in the two years prior to 30 June 2016.

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

Guarantee arrangements

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

Conditions of registration

There have been no changes to the conditions of registration imposed on the Bank since 31 March 2016.

Directors' statement

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

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

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the nine months ended 30 June 2016:

(a) the Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;

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

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

This Disclosure Statement has been signed by all the Directors:

Janice Amelia Dawson

David Alexander McLean

Malcolm Guy Bailey

Philip Matthew Coffey

Jonathan Parker Mason

Christopher John David Moller

Mary Patricia Leonie Quin

Dated this 19th day of August 2016

Income statement for the nine months ended 30 June 2016

		The Banking Group		
$ millions	Note	**Nine Months Ended 30-Jun-16 Unaudited**	Nine Months Ended 30-Jun-15 Unaudited	Year Ended 30-Sep-15 Audited
Interest income		**3,103**	3,297	4,397
Interest expense		**(1,800)**	(1,965)	(2,607)
Net interest income		**1,303**	1,332	1,790
Non-interest income	2	**294**	300	399
Net operating income		**1,597**	1,632	2,189
Operating expenses		**(681)**	(641)	(888)
Impairment charges on loans	3	**(12)**	(45)	(47)
Profit before income tax expense		**904**	946	1,254
Income tax expense		**(251)**	(257)	(343)
Profit after income tax expense		**653**	689	911
Profit after income tax expense attributable to:				
Owners of the Banking Group		**653**	687	908
Non-controlling interests		**-**	2	3
		653	689	911

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Statement of comprehensive income for the nine months ended 30 June 2016

		The Banking Group		
$ millions	Note	**Nine Months Ended 30-Jun-16 Unaudited**	Nine Months Ended 30-Jun-15 Unaudited	Year Ended 30-Sep-15 Audited
Profit after income tax expense		**653**	689	911
Other comprehensive expense which may be reclassified subsequently to the income statement:				
Available-for-sale securities:				
Net unrealised (losses)/gains from changes in fair value of available-for-sale securities		**(15)**	1	(8)
Transferred to the income statement	2	**-**	(19)	(19)
Income tax effect		**4**	5	8
Cash flow hedges:				
Net losses from changes in fair value of cash flow hedges		**(87)**	(102)	(152)
Transferred to the income statement		**72**	8	23
Income tax effect		**4**	26	37
Total other comprehensive expense which may be reclassified subsequently to the income statement		**(22)**	(81)	(111)
Other comprehensive expense which will not be reclassified subsequently to the income statement:				
Remeasurement of employee defined benefit obligations		**(2)**	(7)	(7)
Income tax effect		**1**	2	2
Total other comprehensive expense which will not be reclassified subsequently to the income statement		**(1)**	(5)	(5)
Total other comprehensive expense, net of tax		**(23)**	(86)	(116)
Total comprehensive income		**630**	603	795
Total comprehensive income attributable to:				
Owners of the Banking Group		**630**	601	792
Non-controlling interests		**-**	2	3
		630	603	795

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Balance sheet as at 30 June 2016

$ millions	Note	The Banking Group 30-Jun-16 Unaudited	30-Jun-15 Unaudited	30-Sep-15 Audited
Assets				
Cash and balances with central banks		**1,825**	1,908	857
Due from other financial institutions		**521**	157	18
Trading securities and other financial assets designated at fair value	4	**1,710**	2,323	2,085
Derivative financial instruments		**146**	315	618
Available-for-sale securities		**3,777**	3,385	3,421
Loans	5, 6	**73,802**	67,747	69,155
Due from related entities		**1,753**	2,766	2,587
Investment in associate		**7**	48	-
Property, plant and equipment		**143**	162	164
Current tax assets		**44**	17	-
Deferred tax assets		**183**	177	183
Goodwill and other intangible assets		**591**	641	607
Other assets		**212**	253	230
Total assets		**84,714**	79,899	79,925
Liabilities				
Due to other financial institutions		**9**	579	490
Deposits and other borrowings	8	**57,322**	53,305	52,986
Other financial liabilities at fair value through income statement		**11**	165	-
Derivative financial instruments		**716**	257	203
Debt issues	9	**15,190**	14,505	14,685
Current tax liabilities		**-**	-	25
Provisions		**77**	70	83
Other liabilities		**492**	545	514
Total liabilities excluding related entities liabilities		**73,817**	69,426	68,986
Due to related entities		**3,116**	3,720	3,405
Subordinated notes		**1,090**	-	1,143
Total related entities liabilities		**4,206**	3,720	4,548
Total liabilities		**78,023**	73,146	73,534
Net assets		**6,691**	6,753	6,391
Equity				
Share capital		**3,750**	3,700	3,750
Retained profits		**3,022**	3,079	2,700
Available-for-sale securities reserve		**5**	22	16
Cash flow hedge reserve		**(86)**	(51)	(75)
Total equity attributable to owners of the Banking Group		**6,691**	6,750	6,391
Non-controlling interests		**-**	3	-
Total equity		**6,691**	6,753	6,391
Interest earning and discount bearing assets		**83,501**	77,953	77,961
Interest and discount bearing liabilities		**71,187**	67,791	68,088

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Statement of changes in equity for the nine months ended 30 June 2016

	The Banking Group						
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total Before Non-controlling Interests	Non-controlling Interests	Total Equity
As at 1 October 2014 (Audited)	4,150	2,397	35	17	6,599	6	6,605
Nine months ended 30 June 2015 (Unaudited)							
Profit after income tax expense	-	687	-	-	687	2	689
Net gains/(losses) from changes in fair value	-	-	1	(102)	(101)	-	(101)
Income tax effect	-	-	-	28	28	-	28
Transferred to the income statement	-	-	(19)	8	(11)	-	(11)
Income tax effect	-	-	5	(2)	3	-	3
Remeasurement of employee defined benefit obligations	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	2	-	-	2	-	2
Total comprehensive income for the nine months ended 30 June 2015	-	682	(13)	(68)	601	2	603
Transactions with owners:							
Share capital repurchased	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	-	-	-	-	(5)	(5)
As at 30 June 2015 (Unaudited)	3,700	3,079	22	(51)	6,750	3	6,753
Year ended 30 September 2015 (Audited)							
Profit after income tax expense	-	908	-	-	908	3	911
Net losses from changes in fair value	-	-	(8)	(152)	(160)	-	(160)
Income tax effect	-	-	3	43	46	-	46
Transferred to the income statement	-	-	(19)	23	4	-	4
Income tax effect	-	-	5	(6)	(1)	-	(1)
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	-	903	(19)	(92)	792	3	795
Transactions with owners:							
Share capital issued	600	-	-	-	600	-	600
Share capital repurchased	(1,000)	-	-	-	(1,000)	-	(1,000)
Dividends paid on ordinary shares	-	(600)	-	-	(600)	(8)	(608)
Derecognition of non-controlling interest	-	-	-	-	-	(1)	(1)
As at 30 September 2015 (Audited)	3,750	2,700	16	(75)	6,391	-	6,391
Nine months ended 30 June 2016 (Unaudited)							
Profit after income tax expense	**-**	**653**	**-**	**-**	**653**	**-**	**653**
Net losses from changes in fair value	**-**	**-**	**(15)**	**(87)**	**(102)**	**-**	**(102)**
Income tax effect	**-**	**-**	**4**	**24**	**28**	**-**	**28**
Transferred to the income statement	**-**	**-**	**-**	**72**	**72**	**-**	**72**
Income tax effect	**-**	**-**	**-**	**(20)**	**(20)**	**-**	**(20)**
Remeasurement of employee defined benefit obligations	**-**	**(2)**	**-**	**-**	**(2)**	**-**	**(2)**
Income tax effect	**-**	**1**	**-**	**-**	**1**	**-**	**1**
Total comprehensive income for the nine months ended 30 June 2016	**-**	**652**	**(11)**	**(11)**	**630**	**-**	**630**
Transactions with owners:							
Dividends paid on ordinary shares (refer to Note 10)	**-**	**(330)**	**-**	**-**	**(330)**	**-**	**(330)**
As at 30 June 2016 (Unaudited)	**3,750**	**3,022**	**5**	**(86)**	**6,691**	**-**	**6,691**

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Statement of cash flows for the nine months ended 30 June 2016

	The Banking Group		
$ millions	**Nine Months Ended 30-Jun-16 Unaudited**	Nine Months Ended 30-Jun-15 Unaudited	Year Ended 30-Sep-15 Audited
Cash flows from operating activities			
Interest income received	**3,110**	3,303	4,416
Interest expense paid	**(1,791)**	(1,806)	(2,488)
Non-interest income received	**274**	286	398
Operating expenses paid	**(601)**	(575)	(765)
Income tax paid	**(317)**	(325)	(325)
Cash flows from operating activities before changes in operating assets and liabilities	**675**	883	1,236
Net (increase)/decrease in:			
Due from other financial institutions	**(503)**	106	144
Trading securities and other financial assets designated at fair value	**371**	(1,107)	(871)
Loans	**(4,668)**	(3,107)	(4,538)
Due from related entities	**564**	(769)	(796)
Net (decrease)/increase in:			
Due to other financial institutions	**(481)**	378	289
Deposits and other borrowings	**4,336**	2,698	2,375
Other financial liabilities at fair value through income statement	**11**	75	(90)
Other liabilities	**8**	4	(10)
Net movement in external and related entity derivative financial instruments	**(16)**	283	741
Net cash provided by/(used in) operating activities	**297**	(556)	(1,520)
Cash flows from investing activities			
Purchase of available-for-sale securities	**(534)**	(915)	(930)
Proceeds from maturities/sale of available-for-sale securities	**200**	506	506
Proceeds from disposal of a subsidiary	**-**	-	7
Cash receipts from associate	**-**	-	48
Purchase of capitalised computer software	**(31)**	(26)	(38)
Proceeds from disposal of software	**-**	-	2
Purchase of property, plant and equipment	**(7)**	(11)	(24)
Net cash used in investing activities	**(372)**	(446)	(429)
Cash flows from financing activities			
Issue of ordinary share capital	**-**	-	600
Share capital repurchased	**-**	(450)	(1,000)
Net proceeds from debt issues	**6,968**	5,789	7,775
Net repayments of debt issues	**(4,962)**	(4,644)	(7,124)
Net movement in due to related entities	**(633)**	27	(255)
Settlement of promissory note	**-**	-	(48)
Proceeds from issuance of subordinated notes	**-**	-	1,172
Payment of dividends to ordinary shareholders	**(330)**	-	(600)
Payment of dividends to minority shareholders	**-**	(5)	(8)
Net cash provided by financing activities	**1,043**	717	512
Net increase/(decrease) in cash and cash equivalents	**968**	(285)	(1,437)
Cash and cash equivalents at beginning of the period/year	**857**	2,294	2,294
Cash and cash equivalents at end of the period/year	**1,825**	2,009	857
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	**157**	158	166
Cash and balances with central banks	**1,668**	1,750	691
Due from other financial institutions	**-**	101	-
Cash and cash equivalents at end of the period/year	**1,825**	2,009	857

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

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

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

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

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statements for the year ended 30 September 2015 and for the periods ended 31 December 2015 and 31 March 2016. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

These consolidated financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 19 August 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 income statement 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.

Note 2 Non-interest income

	The Banking Group		
$ millions	**Nine Months Ended 30-Jun-16 Unaudited**	Nine Months Ended 30-Jun-15 Unaudited	Year Ended 30-Sep-15 Audited
Fees and commissions			
Transaction fees and commissions	**189**	198	262
Lending fees	**46**	46	61
Management fees received from related entities	**9**	5	7
Other non-risk fee income	**33**	25	38
Total fees and commissions	**277**	274	368
Net ineffectiveness on qualifying hedges	**3**	(5)	(4)
Other non-interest income			
Net unrealised (losses)/gains on derivatives held for trading	**(1)**	1	-
Dividend income	**-**	2	2
Gain on sale of available-for-sale securities	**-**	19	19
Gain on disposal of a subsidiary	**-**	-	4
Share of profit of associate accounted for using the equity method	**9**	-	-
Other	**6**	9	10
Total other non-interest income	**14**	31	35
Total non-interest income	**294**	300	399

Note 3 Impairment charges on loans

$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
	The Banking Group				
Nine months ended 30 June 2016 (Unaudited)					
Collectively assessed provisions	**(9)**	**(6)**	**(9)**	**-**	**(24)**
Individually assessed provisions	**(2)**	**1**	**3**	**-**	**2**
Bad debts written-off directly to the income statement	**1**	**32**	**1**	**-**	**34**
Total impairment (recoveries)/charges on loans	**(10)**	**27**	**(5)**	**-**	**12**
Nine months ended 30 June 2015 (Unaudited)					
Collectively assessed provisions	(10)	4	(14)	-	(20)
Individually assessed provisions	8	2	24	-	34
Bad debts written-off directly to the income statement	2	29	-	-	31
Total impairment charges on loans	-	35	10	-	45
Year ended 30 September 2015 (Audited)					
Collectively assessed provisions	(14)	(2)	(7)	-	(23)
Individually assessed provisions	9	3	22	-	34
Bad debts written-off directly to the income statement	3	32	1	-	36
Total impairment (recoveries)/charges on loans	(2)	33	16	-	47

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

$ millions	**30-Jun-16 Unaudited**	30-Jun-15 Unaudited	30-Sep-15 Audited
	The Banking Group		
Government and semi-government securities	**880**	739	944
Debt securities	**830**	1,476	1,141
Securities purchased under agreement to resell	**-**	108	-
Total trading securities and other financial assets designated at fair value	**1,710**	2,323	2,085

Note 5 Loans

$ millions	**30-Jun-16 Unaudited**	30-Jun-15 Unaudited	30-Sep-15 Audited
	The Banking Group		
Overdrafts	**1,220**	1,202	1,249
Credit card outstandings	**1,535**	1,593	1,537
Money market loans	**1,456**	1,272	1,386
Term loans:			
Housing	**44,654**	41,227	42,152
Non-housing	**24,486**	22,028	22,475
Other	**852**	861	771
Total gross loans	**74,203**	68,183	69,570
Provisions for impairment charges on loans	**(401)**	(436)	(415)
Total net loans	**73,802**	67,747	69,155

As at 30 June 2016, $7,089 million of housing loans were used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under the Bank's Global Covered Bond Programme ('**CB Programme**') (30 June 2015: $5,124 million, 30 September 2015: $4,821 million). These housing loans were not derecognised from the Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2015. As at 30 June 2016, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,524 million (30 June 2015: $2,927 million, 30 September 2015: $4,022 million).

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

$ millions	The Banking Group 30-Jun-16 Unaudited Residential Mortgages	Other Retail	Corporate	Other	Total
Neither past due nor impaired	**43,755**	**3,603**	**24,885**	**347**	**72,590**
Past due and not impaired assets:					
Less than 90 days past due	**832**	**168**	**250**	**1**	**1,251**
At least 90 days past due	**37**	**19**	**28**	**-**	**84**
Total past due and not impaired assets	**869**	**187**	**278**	**1**	**1,335**
Individually impaired assets	**30**	**4**	**244**	**-**	**278**
Total gross loans	**44,654**	**3,794**	**25,407**	**348**	**74,203**
Individually assessed provisions	**8**	**1**	**102**	**-**	**111**
Collectively assessed provisions	**48**	**95**	**180**	**-**	**323**
Total provisions for impairment charges on loans and credit commitments	**56**	**96**	**282**	**-**	**434**
Provision for credit commitments	**-**	**(3)**	**(30)**	**-**	**(33)**
Total provisions for impairment charges on loans	**56**	**93**	**252**	**-**	**401**
Total net loans	**44,598**	**3,701**	**25,155**	**348**	**73,802**

Note 7 Financial assets pledged as collateral

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

$ millions	The Banking Group 30-Jun-16 Unaudited	30-Jun-15 Unaudited	30-Sep-15 Audited
Cash	**521**	56	18
Securities pledged under repurchase agreements			
Available-for-sale securities[1]	**59**	270	4
Trading securities and other financial assets designated at fair value	**-**	-	-
Total amount pledged to secure liabilities (excluding CB Programme)	**580**	326	22

[1] As at 30 June 2016, $59 million of available-for-sale securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank ('**NZ Branch**') (30 June 2015: $105 million, 30 September 2015: $4 million) which is recorded within due to related entities and nil was pledged to third parties (30 June 2015: $165 million, 30 September 2015: nil) which is recorded as other financial liabilities at fair value through income statement.

Note 8 Deposits and other borrowings

$ millions	The Banking Group 30-Jun-16 Unaudited	30-Jun-15 Unaudited	30-Sep-15 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	**1,461**	1,862	1,070
Total deposits and other borrowings at fair value	**1,461**	1,862	1,070
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	**4,637**	3,890	4,032
Other interest bearing:			
At call	**25,299**	22,769	23,871
Term	**25,925**	24,784	24,013
Total deposits and other borrowings at amortised cost	**55,861**	51,443	51,916
Total deposits and other borrowings	**57,322**	53,305	52,986

Note 9 Debt issues

$ millions	The Banking Group 30-Jun-16 Unaudited	30-Jun-15 Unaudited	30-Sep-15 Audited
Short-term debt			
Commercial paper	**2,305**	3,555	2,716
Total short-term debt	**2,305**	3,555	2,716
Long-term debt			
Non-domestic medium-term notes	**5,793**	5,100	5,024
Covered Bonds	**3,524**	2,927	4,022
Domestic medium-term notes	**3,568**	2,923	2,923
Total long-term debt	**12,885**	10,950	11,969
Total debt issues	**15,190**	14,505	14,685
Debt issues at amortised cost	**12,885**	10,950	11,969
Debt issues at fair value	**2,305**	3,555	2,716
Total debt issues	**15,190**	14,505	14,685
Movement in debt issues			
Balance at beginning of the period/year	**14,685**	12,592	12,592
Issuance during the period/year	**6,968**	5,789	7,775
Repayments during the period/year	**(4,962)**	(4,644)	(7,124)
Effect of foreign exchange movements during the period/year	**(1,556)**	793	1,464
Effect of fair value movements and amortisation adjustments during the period/year	**55**	(25)	(22)
Balance at end of the period/year	**15,190**	14,505	14,685

Note 10 Related entities

Westpac New Zealand Staff Superannuation Scheme Trustee Limited, a wholly owned subsidiary of Westpac NZ Operations Limited, was incorporated on 30 June 2016 to provide services as the trustee of the Westpac New Zealand Staff Superannuation Scheme. There were no other changes to the controlled entities of the Bank as set out in Note 24 to the financial statements included in the Disclosure Statement for the year ended 30 September 2015.

The Bank declared and paid dividends of $330 million on 19 February 2016 and $330 million on 19 August 2016 to its immediate parent company, Westpac New Zealand Group Limited.

On 31 March 2016, the Banking Group repaid $790 million of the $2.1 billion funding provided by the NZ Branch in November 2011 to finance the Banking Group's acquisition of business activities transferred to it by the NZ Branch.

Note 11 Fair value of financial instruments

Fair valuation control framework

The 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 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 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.

- 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.

Note 11 Fair value of financial instruments (continued)

Financial instruments measured at fair value

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

$ millions	The Banking Group 30-Jun-16 Unaudited	 30-Jun-15 Unaudited	 30-Sep-15 Audited
Available-for-sale securities			
Level 1	**1,617**	1,613	1,619
Level 2	**2,160**	1,772	1,802
Total available-for-sale securities	**3,777**	3,385	3,421
Trading securites and other financial assets designated at fair value			
Level 1	**279**	-	-
Level 2	**1,431**	2,323	2,085
Total trading securites and other financial assets designated at fair value	**1,710**	2,323	2,085
Total	**5,487**	5,708	5,506

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (30 June 2015: 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 Banking Group's financial instruments not measured at fair value:

	The Banking Group					
	30-Jun-16 Unaudited		30-Jun-15 Unaudited		30-Sep-15 Audited	
$ millions	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	**73,802**	**74,090**	67,747	67,921	69,155	69,335
Total	**73,802**	**74,090**	67,747	67,921	69,155	69,335
Financial liabilities						
Deposits and other borrowings	**55,861**	**55,927**	51,443	51,519	51,916	52,012
Debt issues	**12,885**	**13,018**	10,950	11,059	11,969	12,038
Due to related entities	**2,112**	**2,112**	3,086	3,115	2,846	2,874
Subordinated notes	**1,090**	**1,066**	-	-	1,143	1,143
Total	**71,948**	**72,123**	65,479	65,693	67,874	68,067

For cash and balances with central banks, due from and due to other financial institutions and 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 reprice frequently, and are of a high credit rating.

A description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 26 of the Banking Group's financial statements for the year ended 30 September 2015.

Note 12 Contingent liabilities, contingent assets and credit commitments

	The Banking Group		
$ millions	30-Jun-16 Unaudited	30-Jun-15 Unaudited	30-Sep-15 Audited
Commitments for capital expenditure			
Due within one year	**7**	3	2
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**208**	240	233
Motor vehicles	**3**	6	5
Total lease commitments	**211**	246	238
Lease commitments are due as follows:			
One year or less	**55**	60	58
Between one and five years	**139**	147	146
Over five years	**17**	39	34
Total lease commitments	**211**	246	238
Credit risk-related instruments			
Standby letters of credit and financial guarantees	**101**	170	181
Trade letters of credit	**126**	108	112
Non-financial guarantees	**587**	607	561
Commitments to extend credit	**24,548**	23,684	23,791
Other commitments	**-**	122	40
Total credit risk-related instruments	**25,362**	24,691	24,685

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

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

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

Note 13 Segment information

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

Comparative information for the nine months ended 30 June 2015 has been restated following a change to the 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 Banking Group's operating segments. Comparative information has been restated to ensure consistent presentation with the current reporting period.

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

- 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
- 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 New Zealand equivalents to International Financial Reporting Standards 8 *Operating Segments*;
- elimination entries on consolidation of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Note 13 Segment information (continued)

$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	The Banking Group Investments and Insurance	Reconciling Items	Total
Nine months ended 30 June 2016 (Unaudited)					
Net interest income	**745**	**530**	**(4)**	**32**	**1,303**
Non-interest income	**145**	**106**	**96**	**(53)**	**294**
Net operating income	**890**	**636**	**92**	**(21)**	**1,597**
Net operating income from external customers	**1,212**	**948**	**97**	**(660)**	**1,597**
Net internal interest expense	**(322)**	**(312)**	**(5)**	**639**	**-**
Net operating income	**890**	**636**	**92**	**(21)**	**1,597**
Operating expenses	**(502)**	**(165)**	**(24)**	**10**	**(681)**
Impairment (charges)/recoveries on loans	**(25)**	**13**	**-**	**-**	**(12)**
Profit before income tax expense	**363**	**484**	**68**	**(11)**	**904**
Total gross loans	**40,792**	**33,352**	**-**	**59**	**74,203**
Total deposits	**32,488**	**23,373**	**-**	**1,461**	**57,322**
Nine months ended 30 June 2015 (Unaudited)					
Net interest income	728	508	(6)	102	1,332
Non-interest income	147	128	90	(65)	300
Net operating income	875	636	84	37	1,632
Net operating income from external customers	1,150	944	90	(552)	1,632
Net internal interest expense	(275)	(308)	(6)	589	-
Net operating income	875	636	84	37	1,632
Operating expenses	(470)	(153)	(22)	4	(641)
Impairment (charges)/recoveries on loans	(28)	(23)	-	6	(45)
Profit before income tax expense	377	460	62	47	946
Total gross loans	37,495	30,620	-	68	68,183
Total deposits	30,441	21,002	-	1,862	53,305
Year ended 30 September 2015 (Audited)					
Net interest income	975	681	(8)	142	1,790
Non-interest income	195	166	120	(82)	399
Net operating income	1,170	847	112	60	2,189
Net operating income from external customers	1,541	1,267	120	(739)	2,189
Net internal interest expense	(371)	(420)	(8)	799	-
Net operating income	1,170	847	112	60	2,189
Operating expenses	(627)	(203)	(30)	(28)	(888)
Impairment (charges)/recoveries on loans	(27)	(21)	-	1	(47)
Profit before income tax expense	516	623	82	33	1,254
Total gross loans	38,225	31,294	-	51	69,570
Total deposits	31,153	20,763	-	1,070	52,986

Note 14 Insurance business

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

Note 15 Capital adequacy

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

During the nine months ended 30 June 2016, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

$ millions	The Banking Group 30-Jun-16 Unaudited
Tier 1 Capital	
Common Equity Tier 1 Capital	**6,691**
Less deductions from Common Equity Tier 1 Capital[1]	**(881)**
Total Common Equity Tier 1 Capital[2]	**5,810**
Additional Tier 1 Capital	**-**
Less deductions from Additional Tier 1 Capital	**-**
Total Tier 1 Capital	**5,810**
Tier 2 Capital	**1,090**
Less deductions from Tier 2 Capital	**-**
Total Capital	**6,900**

[1] Includes capitalised transaction costs on subordinated notes and debt issuances.

[2] Common Equity Tier 1 Capital includes available-for-sale securities reserve of $5 million.

Capital ratios

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 1 of Schedule 12 to the Order and represents the capital adequacy calculation based on the BS2B.

%	The Banking Group 30-Jun-16 Unaudited
Capital adequacy ratios	
Common Equity Tier 1 Capital ratio	**11.2**
Tier 1 Capital ratio	**11.2**
Total Capital ratio	**13.3**
Reserve Bank minimum ratios	
Common Equity Tier 1 Capital ratio	**4.5**
Tier 1 Capital ratio	**6.0**
Total Capital ratio	**8.0**
Buffer ratios	
Buffer ratio	**5.2**
Buffer ratio requirement	**2.5**

Note 15 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

$ millions	The Banking Group 30-Jun-16 Unaudited
Credit risk	
Exposures subject to the internal ratings based approach:	
Residential mortgages	1,283
Other retail (credit cards, personal loans, personal overdrafts)	228
Small business	61
Corporate/Business lending	1,565
Sovereign	14
Bank	14
Total exposures subject to the internal ratings based approach	3,165
Exposures not subject to the internal ratings based approach:	
Equity exposures	-
Specialised lending subject to the slotting approach	511
Exposures subject to the standardised approach	67
Total exposures not subject to the internal ratings based approach	578
Total credit risk (scaled)[1]	3,743
Operational risk	360
Market risk	62
Supervisory adjustment	-
Total	4,165

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

Capital for other material risks

The Banking Group's internal capital adequacy assessment process identifies, reviews and measures other material risks of the Banking Group that are additional to the standard credit, market and operational risks. These must be captured within the Banking Group's capital adequacy assessment process to ascertain whether additional capital is required to be held over and above the Banking Group's Pillar 1 capital requirement. Other material risks that are reviewed are: compliance and conduct risk, liquidity risk, reputational risk, environmental, social and governance risk, model risk, business/strategic risk, other assets risk and subsidiary risk.

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

$ millions	The Banking Group 30-Jun-16 Unaudited
Internal capital allocation	
Other material risks	69

Note 16 Risk management

16.1 Credit risk

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 June 2016

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the Bank utilises its loan origination system.

For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore, is not available for disclosure. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

	The Banking Group 30-Jun-16 Unaudited					
LVR range ($ millions)	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	18,065	8,455	10,726	5,185	1,905	44,336
Undrawn commitments and other off-balance sheet exposures	5,389	1,440	1,345	447	153	8,774
Value of exposures	23,454	9,895	12,071	5,632	2,058	53,110

16.2 Liquidity risk

Liquid assets

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

$ millions	The Banking Group 30-Jun-16 Unaudited
Cash and balances with central banks	**1,825**
Due from other financial institutions (included in due from related entities)	**479**
Supranational securities	**1,408**
NZ Government securities	**2,222**
NZ public securities	**1,299**
NZ corporate securities	**882**
Residential mortgage-backed securities	**3,992**
Total liquid assets	**12,107**

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

- as at 30 June 2016 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 June 2016 was nil.

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

% of Banking Group's equity	The Banking Group 30-Jun-16 Long-term credit rating A- or A3 and above
As at 30 June 2016[1]	
10-14	**1**
15-19	**1**
20 and above	**-**
Peak end-of-day aggregate credit exposure for the three months ended 30 June 2016[1]	
10-14	**1**
15-19	**1**
20 and above	**-**

[1] There were no individual non-bank counterparties with aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity and with a long-term credit rating of BB-, BBa3 to BBB+, Baa1, below BBB-, BBa3 or unrated.

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

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

Note 18 Events after the reporting date

On 19 August 2016, the Bank declared and paid a dividend of $330 million to its immediate parent company, Westpac New Zealand Group Limited.