
Westpac New Zealand Limited **Disclosure Statement**

For the six months ended 31 March 2016



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General information and definitions

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

In this Disclosure Statement, reference is made to:

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

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

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 31 March 2016, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit was approximately 6.1% of Level 1 Tier 1 Capital of the Ultimate Parent Bank. Non-equity exposure would need to reduce by approximately \$0.5 billion from the 31 March 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	Stable
Standard & Poor's	AA-	Stable

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

Guarantee arrangements

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

Conditions of registration

There have been no changes to the conditions of registration imposed on the Bank since 31 December 2015.

Auditors

PricewaterhouseCoopers

PricewaterhouseCoopers Tower

188 Quay Street

Auckland, New Zealand

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 six months ended 31 March 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 20th day of May 2016

Income statement for the six months ended 31 March 2016

\$ millions	Note	The Banking Group		
		Six Months Ended 31-Mar-16 Unaudited	Six Months Ended 31-Mar-15 Unaudited	Year Ended 30-Sep-15 Audited
Interest income		2,088	2,188	4,397
Interest expense		(1,222)	(1,312)	(2,607)
Net interest income		866	876	1,790
Non-interest income	2	198	198	399
Net operating income		1,064	1,074	2,189
Operating expenses		(447)	(416)	(888)
Impairment charges on loans	3	(9)	(31)	(47)
Profit before income tax expense		608	627	1,254
Income tax expense		(168)	(176)	(343)
Profit after income tax expense		440	451	911
Profit after income tax expense attributable to:				
Owners of the Banking Group		440	450	908
Non-controlling interests		-	1	3
		440	451	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 six months ended 31 March 2016

\$ millions	Note	The Banking Group		
		Six Months Ended 31-Mar-16 Unaudited	Six Months Ended 31-Mar-15 Unaudited	Year Ended 30-Sep-15 Audited
Profit after income tax expense		440	451	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)	3	(8)
Transferred to the income statement	2	-	-	(19)
Income tax effect		4	(1)	8
Cash flow hedges:				
Net losses from changes in fair value of cash flow hedges		(63)	(72)	(152)
Transferred to the income statement		48	3	23
Income tax effect		4	19	37
Total other comprehensive expense which may be reclassified subsequently to the income statement		(22)	(48)	(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)	(53)	(116)
Total comprehensive income		417	398	795
Total comprehensive income attributable to:				
Owners of the Banking Group		417	397	792
Non-controlling interests		-	1	3
		417	398	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 31 March 2016

\$ millions	Note	The Banking Group		
		31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Assets				
Cash and balances with central banks		1,523	1,568	857
Due from other financial institutions		172	569	18
Trading securities and other financial assets designated at fair value	4	1,788	1,291	2,085
Derivative financial instruments		253	49	618
Available-for-sale securities		3,713	3,520	3,421
Loans	5, 6	71,723	66,667	69,155
Due from related entities		2,149	2,245	2,587
Investment in associate		8	48	-
Property, plant and equipment		149	163	164
Current tax assets		20	-	-
Deferred tax assets		184	175	183
Goodwill and other intangible assets		591	652	607
Other assets		242	252	230
Total assets		82,515	77,199	79,925
Liabilities				
Due to other financial institutions		78	60	490
Deposits and other borrowings	8	55,965	52,909	52,986
Other financial liabilities at fair value through income statement		157	117	-
Derivative financial instruments		461	616	203
Debt issues	9	14,748	12,684	14,685
Current tax liabilities		-	36	25
Provisions		68	67	83
Other liabilities		511	515	514
Total liabilities excluding related entities liabilities		71,988	67,004	68,986
Due to related entities		2,897	3,647	3,405
Subordinated notes		1,152	-	1,143
Total related entities liabilities		4,049	3,647	4,548
Total liabilities		76,037	70,651	73,534
Net assets		6,478	6,548	6,391
Equity				
Share capital		3,750	3,700	3,750
Retained profits		2,809	2,842	2,700
Available-for-sale securities reserve		5	37	16
Cash flow hedge reserve		(86)	(33)	(75)
Total equity attributable to owners of the Banking Group		6,478	6,546	6,391
Non-controlling interests		-	2	-
Total equity		6,478	6,548	6,391
Interest earning and discount bearing assets		81,168	75,826	77,961
Interest and discount bearing liabilities		69,745	64,956	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 six months ended 31 March 2016

\$ millions	The Banking Group						
	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
Six months ended 31 March 2015 (Unaudited)							
Profit after income tax expense	-	450	-	-	450	1	451
Net gains/(losses) from changes in fair value	-	-	3	(72)	(69)	-	(69)
Income tax effect	-	-	(1)	20	19	-	19
Transferred to the income statement	-	-	-	3	3	-	3
Income tax effect	-	-	-	(1)	(1)	-	(1)
Remeasurement of employee defined benefit obligations	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	2	-	-	2	-	2
Total comprehensive income for the six months ended 31 March 2015	-	445	2	(50)	397	1	398
Transactions with owners:							
Share capital repurchased	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	-	-	-	-	(5)	(5)
As at 31 March 2015 (Unaudited)	3,700	2,842	37	(33)	6,546	2	6,548
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
Six months ended 31 March 2016 (Unaudited)							
Profit after income tax expense	-	440	-	-	440	-	440
Net losses from changes in fair value	-	-	(15)	(63)	(78)	-	(78)
Income tax effect	-	-	4	17	21	-	21
Transferred to the income statement	-	-	-	48	48	-	48
Income tax effect	-	-	-	(13)	(13)	-	(13)
Remeasurement of employee defined benefit obligations	-	(2)	-	-	(2)	-	(2)
Income tax effect	-	1	-	-	1	-	1
Total comprehensive income for the six months ended 31 March 2016	-	439	(11)	(11)	417	-	417
Transactions with owner:							
Dividends paid on ordinary shares (refer to Note 10)	-	(330)	-	-	(330)	-	(330)
As at 31 March 2016 (Unaudited)	3,750	2,809	5	(86)	6,478	-	6,478

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 six months ended 31 March 2016

\$ millions	The Banking Group		
	Six Months Ended 31-Mar-16 Unaudited	Six Months Ended 31-Mar-15 Unaudited	Year Ended 30-Sep-15 Audited
Cash flows from operating activities			
Interest income received	2,109	2,183	4,416
Interest expense paid	(1,225)	(1,314)	(2,488)
Non-interest income received	168	185	398
Operating expenses paid	(423)	(375)	(765)
Income tax paid	(207)	(196)	(325)
Cash flows from operating activities before changes in operating assets and liabilities	422	483	1,236
Net (increase)/decrease in:			
Due from other financial institutions	(154)	(406)	144
Trading securities and other financial assets designated at fair value	293	(75)	(871)
Loans	(2,542)	(2,116)	(4,538)
Due from related entities	165	(602)	(796)
Other assets	4	-	-
Net (decrease)/increase in:			
Due to other financial institutions	(412)	(141)	289
Deposits and other borrowings	2,979	2,302	2,375
Other financial liabilities at fair value through income statement	157	27	(90)
Other liabilities	17	9	(10)
Net movement in external and related entity derivative financial instruments	136	404	741
Net cash provided by/(used in) operating activities	1,065	(115)	(1,520)
Cash flows from investing activities			
Purchase of available-for-sale securities	(275)	(617)	(930)
Proceeds from maturities/sale of available-for-sale securities	-	65	506
Proceeds from disposal of a subsidiary	-	-	7
Cash receipts from associate	-	-	48
Purchase of capitalised computer software	(14)	(21)	(38)
Proceeds from disposal of software	-	-	2
Purchase of property, plant and equipment	(4)	(3)	(24)
Net cash used in investing activities	(293)	(576)	(429)
Cash flows from financing activities			
Issue of ordinary share capital	-	-	600
Share capital repurchased	-	(450)	(1,000)
Net proceeds from debt issues	3,181	4,110	7,775
Repayments of debt issues	(2,233)	(3,570)	(7,124)
Net movement in due to related entities	(724)	(119)	(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 (used in)/provided by financing activities	(106)	(34)	512
Net increase/(decrease) in cash and cash equivalents	666	(725)	(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	1,523	1,569	857
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	1,343	194	166
Cash and balances with central banks	180	1,374	691
Due from other financial institutions	-	1	-
Cash and cash equivalents at end of the period/year	1,523	1,569	857

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these 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 three months ended 31 December 2015. 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 20 May 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		
	Six Months Ended 31-Mar-16 Unaudited	Six Months Ended 31-Mar-15 Unaudited	Year Ended 30-Sep-15 Audited
\$ millions			
Fees and commissions			
Transaction fees and commissions	124	139	262
Lending fees (loan and risk)	30	31	61
Management fees received from related entities	6	3	7
Other non-risk fee income	23	16	38
Total fees and commissions	183	189	368
Net ineffectiveness on qualifying hedges	2	(1)	(4)
Other non-interest income			
Net unrealised gains on derivatives held for trading	-	1	-
Dividend income	-	-	2
Gain on sale of available-for-sale securities	-	-	19
Gain on disposal of a subsidiary	-	-	4
Share of profit of associate accounted for using the equity method	8	-	-
Other	5	9	10
Total other non-interest income	13	10	35
Total non-interest income	198	198	399

Notes to the financial statements

Note 3 Impairment charges on loans

\$ millions	The Banking Group				Total
	Residential Mortgages	Other Retail	Corporate	Other	
Six months ended 31 March 2016 (Unaudited)					
Collectively assessed provisions	(8)	1	(9)	-	(16)
Individually assessed provisions	(1)	1	2	-	2
Bad debts written-off directly to the income statement	1	22	-	-	23
Total impairment (recoveries)/charges on loans	(8)	24	(7)	-	9
Six months ended 31 March 2015 (Unaudited)					
Collectively assessed provisions	(8)	9	(12)	-	(11)
Individually assessed provisions	7	1	17	-	25
Bad debts written-off/(recovered) directly to the income statement	1	17	(1)	-	17
Total impairment charges on loans	-	27	4	-	31
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	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Government and semi-government securities	538	544	944
Debt securities	1,250	747	1,141
Total trading securities and other financial assets designated at fair value	1,788	1,291	2,085

Note 5 Loans

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Overdrafts	1,292	1,220	1,249
Credit card outstanding	1,547	1,445	1,537
Money market loans	1,375	1,156	1,386
Term loans:			
Housing	43,464	40,816	42,152
Non-housing	23,579	21,812	22,475
Other	875	679	771
Total gross loans	72,132	67,128	69,570
Provisions for impairment charges on loans	(409)	(461)	(415)
Total net loans	71,723	66,667	69,155

As at 31 March 2016, \$4,303 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') (31 March 2015: \$3,591 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 31 March 2016, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$4,090 million (31 March 2015: \$3,036 million, 30 September 2015: \$4,022 million).

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

\$ millions	The Banking Group 31-Mar-16 (Unaudited)				Total
	Residential Mortgages	Other Retail	Corporate	Other	
Neither past due nor impaired	42,481	3,542	24,066	337	70,426
Past due and not impaired assets					
Less than 30 days past due	776	139	128	-	1,043
At least 30 days but less than 60 days past due	83	25	94	-	202
At least 60 days but less than 90 days past due	41	11	13	-	65
At least 90 days past due	45	19	20	-	84
Total past due and not impaired assets	945	194	255	-	1,394
Individually impaired assets ¹					
Balance at beginning of the period	49	2	231	-	282
Additions	19	3	83	-	105
Amounts written off	(4)	(1)	-	-	(5)
Returned to performing or repaid	(26)	(1)	(43)	-	(70)
Balance at end of the period	38	3	271	-	312
Total gross loans ²	43,464	3,739	24,592	337	72,132
Individually assessed provisions					
Balance at beginning of the period	14	1	103	-	118
Impairment charges on loans:					
New provisions	4	1	5	-	10
Reversal of previously recognised impairment charges on loans	(5)	-	(3)	-	(8)
Amounts written off	(3)	(1)	-	-	(4)
Balance at end of the period	10	1	105	-	116
Collectively assessed provisions					
Balance at beginning of the period	55	93	181	-	329
Impairment (recoveries)/charges on loans	(8)	1	(9)	-	(16)
Interest adjustments	1	5	7	-	13
Balance at end of the period	48	99	179	-	326
Total provisions for impairment charges on loans and credit commitments	58	100	284	-	442
Provision for credit commitments	-	(4)	(29)	-	(33)
Total provisions for impairment charges on loans	58	96	255	-	409
Total net loans	43,406	3,643	24,337	337	71,723

¹ The Banking Group had undrawn balances of lending commitments of \$34 million to counterparties for whom drawn balances are classified as individually impaired assets under corporate as at 31 March 2016 (31 March 2015: \$57 million, 30 September 2015: \$103 million).

² The Banking Group did not have other assets under administration as at 31 March 2016.

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 transaction with other financial institutions. The carrying value of financial assets pledged as collateral to secure liabilities is:

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Cash	172	568	18
Securities pledged under repurchase agreements			
Available-for-sale securities ¹	5	156	4
Trading securities and other financial assets designated at fair value	-	-	-
Total amount pledged to secure liabilities (excluding CB Programme)	177	724	22

¹ As at 31 March 2016, \$5 million of available-for-sale securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank ('NZ Branch') (31 March 2015: \$124 million, 30 September 2015: \$4 million) which is recorded within due to related entities and nil was pledged to third parties (31 March 2015: \$32 million, 30 September 2015: nil) which is recorded as other financial liabilities at fair value through income statement.

Notes to the financial statements

Note 8 Deposits and other borrowings

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	1,045	1,456	1,070
Total deposits and other borrowings at fair value	1,045	1,456	1,070
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	4,467	3,847	4,032
Other interest bearing:			
At call	25,311	22,549	23,871
Term	25,142	25,057	24,013
Total deposits and other borrowings at amortised cost	54,920	51,453	51,916
Total deposits and other borrowings	55,965	52,909	52,986

Note 9 Debt issues

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Short-term debt			
Commercial paper	1,630	2,997	2,716
Total short-term debt	1,630	2,997	2,716
Long-term debt			
Non-domestic medium-term notes	6,115	3,758	5,024
Covered bonds	4,090	3,036	4,022
Domestic medium-term notes	2,913	2,893	2,923
Total long-term debt	13,118	9,687	11,969
Total debt issues	14,748	12,684	14,685
Debt issues at amortised cost	13,118	9,687	11,969
Debt issues at fair value	1,630	2,997	2,716
Total debt issues	14,748	12,684	14,685
Movement in debt issues			
Balance at beginning of the period/year	14,685	12,592	12,592
Issuance during the period/year	3,181	4,110	7,775
Repayments during the period/year	(2,233)	(3,570)	(7,124)
Effect of foreign exchange movements during the period/year	(923)	(429)	1,464
Effect of fair value movements and amortisation adjustments during the period/year	38	(19)	(22)
Balance at end of the period/year	14,748	12,684	14,685

Note 10 Related entities

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

On 19 February 2016, the Bank declared and paid a dividend of \$330 million 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.

Note 11 Fair value of financial instruments (continued)**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.

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. The following table summarises the attribution of available-for-sale securities measured at fair value to the fair value hierarchy based on the measurement basis after initial recognition:

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Available-for-sale securities			
Level 1	1,623	2,012	1,619
Level 2	2,090	1,466	1,802
Level 3 ¹	-	42	-
Total available-for-sale securities	3,713	3,520	3,421

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

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs, that were recognised in either the income statement or the statement of comprehensive income of the Banking Group during the six months ended 31 March 2016 (31 March 2015: no material changes in fair value, 30 September 2015: no material changes in fair value).

Analysis of movements between fair value hierarchy levels

During the period there were no material transfers between levels of the fair value hierarchy (31 March 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:

\$ millions	31-Mar-16 (Unaudited)		The Banking Group 31-Mar-15 (Unaudited)		30-Sep-15 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	71,723	71,909	66,667	66,628	69,155	69,335
Total	71,723	71,909	66,667	66,628	69,155	69,335
Financial liabilities						
Deposits and other borrowings	54,920	54,997	51,453	51,515	51,916	52,012
Debt issues	13,118	13,203	9,687	9,801	11,969	12,038
Due to related entities	2,123	2,137	2,937	2,972	2,846	2,874
Subordinated notes	1,152	1,141	-	-	1,143	1,143
Total	71,313	71,478	64,077	64,288	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 repriced frequently, and are of a high credit rating.

A detailed 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.

Notes to the financial statements

Note 12 Contingent liabilities, contingent assets and credit commitments

\$ millions	The Banking Group		
	31-Mar-16 Unaudited	31-Mar-15 Unaudited	30-Sep-15 Audited
Commitments for capital expenditure			
Due within one year	1	3	2
Lease commitments (all leases are classified as operating leases)			
Premises and sites	207	250	233
Motor vehicles	3	6	5
Total lease commitments	210	256	238
Lease commitments are due as follows:			
One year or less	53	60	58
Between one and five years	136	150	146
Over five years	21	46	34
Total lease commitments	210	256	238
Credit risk-related instruments			
Standby letters of credit and financial guarantees	108	156	181
Trade letters of credit	123	115	112
Non-financial guarantees	602	606	561
Commitments to extend credit	25,007	22,599	23,791
Other commitments	-	110	40
Total credit risk-related instruments	25,840	23,586	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 six months ended 31 March 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.

Notes to the financial statements

Note 13 Segment information (continued)

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.

\$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	The Banking Group Investments and Insurance	Reconciling Items	Total
Six months ended 31 March 2016 (Unaudited)					
Net interest income	491	349	(2)	28	866
Non-interest income	95	70	66	(33)	198
Net operating income	586	419	64	(5)	1,064
Net operating income from external customers	797	635	67	(435)	1,064
Net internal interest expense	(211)	(216)	(3)	430	-
Net operating income	586	419	64	(5)	1,064
Operating expenses	(332)	(109)	(15)	9	(447)
Impairment (charges)/recoveries on loans	(22)	13	-	-	(9)
Profit before income tax expense	232	323	49	4	608
Total gross loans	39,616	32,418	-	98	72,132
Total deposits and other borrowings	32,119	22,801	-	1,045	55,965
Six months ended 31 March 2015 (Unaudited)					
Net interest income	482	337	(4)	61	876
Non-interest income	101	76	60	(39)	198
Net operating income	583	413	56	22	1,074
Net operating income from external customers	766	614	60	(366)	1,074
Net internal interest expense	(183)	(201)	(4)	388	-
Net operating income	583	413	56	22	1,074
Operating expenses	(303)	(101)	(15)	3	(416)
Impairment (charges)/recoveries on loans	(23)	(15)	-	7	(31)
Profit before income tax expense	257	297	41	32	627
Total gross loans	37,160	29,952	-	16	67,128
Total deposits and other borrowings	29,679	21,774	-	1,456	52,909
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 and other borrowings	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).

Notes to the financial statements

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 six months ended 31 March 2016, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

\$ millions		The Banking Group 31-Mar-16 Unaudited
Tier 1 capital		
Common Equity Tier 1 capital		
Paid-up ordinary shares issued by the Bank plus related share premium		3,750
Retained earnings (net of appropriations)		2,809
Accumulated other comprehensive income and other disclosed reserves ¹		(81)
Less deductions from Common Equity Tier 1 capital		
Goodwill		(477)
Other intangible assets ²		(116)
Cash flow hedge reserve		86
Deferred tax assets deduction		(184)
Expected loss excess over eligible allowance		(172)
Total Common Equity Tier 1 capital		5,615
Additional Tier 1 capital		
Interests arising from ordinary shares issued by fully consolidated subsidiaries and held by third parties		-
Total Tier 1 capital		5,615
Tier 2 capital		
Subordinated notes (face value)		1,153
Revaluation reserves		-
Eligible impairment allowance in excess of expected loss		-
Total Tier 2 capital		1,153
Total capital		6,768

¹ Accumulated other comprehensive income and other disclosed reserves consist of available-for-sale securities reserve and cash flow hedge reserve as disclosed in the balance sheet.

² Includes capitalised transaction costs on subordinated notes and debt issuances.

Capital structure

Ordinary shares

In accordance with BS2B ordinary share capital is classified as Common Equity Tier 1 capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

Subordinated Notes

On 8 September 2015, the Bank issued 1,040,000 subordinated notes at a face value of A\$1,000 each ('Subordinated Notes') to the London Branch of the Ultimate Parent Bank ('London Branch'). The Subordinated Notes are convertible, redeemable, subordinated and unsecured debt securities of the Bank. The Subordinated Notes rank equally amongst themselves and are subordinated to the claims of depositors and other unsubordinated creditors of the Bank. The Subordinated Notes mature on 22 March 2026. The Subordinated Notes qualify for Tier 2 regulatory capital recognition under BS2B.

Interest payable

Interest is payable quarterly in arrears and commenced on 22 December 2015, at a rate based on the Australian 90 day bank bill rate plus a margin of 2.87% per annum. Interest payments on the Subordinated Notes are subject to the Bank being solvent at the time of the interest payment and immediately following the interest payment.

Conversion

If a non-viability trigger event occurs, the Bank must convert such number of the Subordinated Notes into a variable number of ordinary shares issued by the Bank (calculated by reference to the net assets of the Bank and the total number of ordinary shares) that is sufficient to satisfy the direction of the Reserve Bank or the decision of the statutory manager. A non-viability trigger event occurs when the Reserve Bank directs the Bank to convert all or some of the Bank's capital instruments that qualify for additional Tier 1 or Tier 2 regulatory capital recognition under BS2B ('Capital Instruments') or the Bank is declared subject to statutory management pursuant to section 117 of the Reserve Bank Act and the statutory manager decides the Bank must convert or write-off all or some of the Capital Instruments.

If conversion of the Subordinated Notes fails to take effect within five business days, holders' rights in relation to the Subordinated Notes will be terminated.

Redemption

The Bank may redeem all or some of the Subordinated Notes for their face value together with accrued interest (if any) on 22 March 2021 or any interest payment date thereafter, subject to certain conditions including the Reserve Bank's prior written approval ('Redemption Conditions'). Early redemption of all but not some of the Subordinated Notes for certain tax reasons or regulatory reasons is permitted on an interest payment date subject to the Redemption Conditions.

Note 15 Capital adequacy (continued)

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as non-interest income when the asset is either derecognised or impaired.

Cash flow hedge reserve

The cash flow hedge reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Capital ratios

The Basel banking accords (the '**Accords**') have been developed and strengthened over time by the Basel Committee on Banking Supervision to enhance the banking regulatory framework. The Accords are made up of the different Basel frameworks with the latest being Basel III. Basel III builds on the Basel I and Basel II frameworks, and seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen banks' transparency. The Basel III framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on BS2B.

% Capital adequacy ratios	The Banking Group	
	31-Mar-16 Unaudited	31-Mar-15 Unaudited
Common Equity Tier 1 capital ratio	10.8	11.6
Tier 1 capital ratio	10.8	11.6
Total capital ratio	13.1	11.6
Reserve Bank minimum ratios		
Common Equity Tier 1 capital ratio	4.5	4.5
Tier 1 capital ratio	6.0	6.0
Total capital ratio	8.0	8.0
Buffer ratios		
Buffer ratio	4.8	3.6
Buffer requirement	2.5	2.5

The Banking Group Pillar 1 total capital requirement

\$ millions	The Banking Group 31-Mar-16 (Unaudited)		
	After Credit Risk Total Exposure After Credit Risk	Risk-weighted Exposure or Implied Risk-weighted Exposure ¹	Total Capital Requirement
Credit risk			
Exposures subject to the internal ratings based approach	93,763	38,616	3,090
Equity exposures	-	-	-
Specialised lending subject to the slotting approach	7,467	6,777	542
Exposures subject to the standardised approach	2,996	989	79
Total credit risk¹	104,226	46,382	3,711
Operational risk	N/A	4,600	368
Market risk	N/A	795	64
Supervisory adjustment	N/A	-	-
Total	104,226	51,777	4,143

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.

Notes to the financial statements

Note 15 Capital adequacy (continued)

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

\$ millions	The Banking Group	
	31-Mar-16	31-Mar-15
	Unaudited	Unaudited
Internal capital allocation		
Other material risks	67	82

The Banking Group regularly reviews the methodologies used to calculate its internal capital allocation to other material risks categories. Updated methodologies and assumptions have been applied in the Banking Group's assessment of capital allocated to other material risks and this is reflected at 31 March 2016. The comparative information has been restated from \$670 million to \$82 million for consistency.

Solo capital adequacy

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors (where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity). Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent.

The table below represents the solo capital adequacy calculation based on the Reserve Bank's Basel III framework as contained in BS2B.

%	The Bank	
	31-Mar-16	31-Mar-15
	Unaudited	Unaudited
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	8.8	9.6
Tier 1 capital ratio	8.8	9.6
Total capital ratio	10.7	9.6

Ultimate Parent Bank Group Basel III capital adequacy ratios

The table below represents the capital adequacy calculation for the Ultimate Parent Bank together with its controlled entities ('Ultimate Parent Bank Group') and Ultimate Parent Bank based on the Australian Prudential Regulation Authority's ('APRA') application of the Basel III capital adequacy framework.

%	31-Mar-16		31-Mar-15	
	Unaudited		Unaudited	
Ultimate Parent Bank Group ^{1, 2}				
Common Equity Tier 1 capital ratio	10.5		8.8	
Additional Tier 1 capital ratio	1.6		1.5	
Tier 1 capital ratio	12.1		10.3	
Tier 2 capital ratio	1.9		1.8	
Total regulatory capital ratio	14.0		12.1	
Ultimate Parent Bank (Extended Licensed Entity) ^{1, 2}				
Common Equity Tier 1 capital ratio	10.8		8.7	
Additional Tier 1 capital ratio	1.8		1.7	
Tier 1 capital ratio	12.6		10.4	
Tier 2 capital ratio	2.2		2.1	
Total regulatory capital ratio	14.8		12.5	

¹ The capital ratios represent information mandated by APRA.

² The capital ratios of the Ultimate Parent Bank Group and the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

The Ultimate Parent Bank 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 Basel III (internal models based approach). With this accreditation the Ultimate Parent Bank 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 Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Ultimate Parent Bank Group, and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2016. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 16 Risk management

16.1 Credit risk

Credit risk mitigation

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities (refer to Note 35.1 Credit risk to the financial statements included in the Disclosure Statement for the year ended 30 September 2015 for further details). Enforceable legal documentation establishes the Banking Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the risk estimates applied. The value of the guarantee is not always separately recorded, and therefore, is not available for disclosure.

Definitions of TCE, PD, EAD, and LGD

(i) **Total Committed Exposure ('TCE')**

TCE represents the sum of on-balance sheet and off-balance sheet exposures.

(ii) **Exposure at Default ('EAD')**

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

(iii) **Probability of Default ('PD')**

PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

(iv) **Loss Given Default ('LGD')**

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

The Banking Group's credit risk exposures by asset class as at 31 March 2016 (Unaudited)

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD \$ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Residential mortgages						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.18	2,179	21.26	7.92	183	15
0.25 to 1.0	0.53	24,033	21.54	17.96	4,576	366
1.0 to 2.5	1.40	18,942	21.57	35.41	7,109	569
2.5 to 10.0	4.46	4,224	22.05	72.00	3,224	258
10.0 to 99.99	-	-	-	-	-	-
Default	100.00	236	22.28	220.88	553	44
Total	1.65	49,614	21.58	29.75	15,645	1,252
Other retail (Credit cards, personal loans, personal overdrafts)						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.14	529	40.70	12.87	72	6
0.25 to 1.0	0.36	1,440	64.32	38.25	584	47
1.0 to 2.5	2.22	1,451	67.68	88.80	1,366	109
2.5 to 10.0	5.42	346	83.97	125.57	461	37
10.0 to 99.99	19.50	254	70.14	144.46	389	31
Default	100.00	13	69.65	133.70	18	1
Total	3.00	4,033	64.55	67.60	2,890	231
Small business						
0.00 to 0.10	0.03	141	73.76	7.30	11	1
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	0.33	622	21.14	17.27	114	9
1.0 to 2.5	1.83	1,622	21.66	27.54	474	38
2.5 to 10.0	4.92	231	20.35	30.06	73	6
10.0 to 99.99	16.64	28	22.12	44.15	13	1
Default	100.00	36	22.06	257.31	98	8
Total	3.13	2,680	24.18	27.55	783	63

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

Notes to the financial statements

Note 16 Risk management (continued)

Exposure-weighted PD Grade (%)	Weighted Average PD %	EAD \$ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Banking Group - Corporate/Business lending						
0.00 to 0.02	0.03	257	32.74	11.29	31	2
0.02 to 0.04	0.03	2,455	39.42	12.59	328	26
0.04 to 0.10	0.08	4,385	45.90	26.17	1,216	97
0.10 to 0.50	0.20	7,549	43.09	41.12	3,291	263
0.50 to 3.0	1.53	13,040	36.31	76.05	10,511	842
3.0 to 10.0	3.70	705	38.42	106.89	799	64
10.0 to 99.0	19.47	1,068	44.00	211.30	2,392	191
Default	100.00	232	43.42	126.29	311	25
Total	2.31	29,691	40.06	59.98	18,879	1,510
Sovereign						
0.00 to 0.02	0.01	1,305	10.00	2.23	31	2
0.02 to 0.04	0.02	4,693	8.99	2.13	106	9
0.04 to 0.10	0.06	381	20.41	8.53	34	3
0.10 to 0.50	-	-	-	-	-	-
0.50 to 3.0	2.00	6	33.19	21.36	1	-
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.02	6,385	9.90	2.55	172	14
Bank						
0.00 to 0.02	-	-	-	-	-	-
0.02 to 0.04	0.03	956	60.00	15.43	157	13
0.04 to 0.10	0.05	333	60.00	20.52	72	6
0.10 to 0.50	0.13	71	38.07	24.25	18	1
0.50 to 3.0	-	-	-	-	-	-
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.04	1,360	58.86	17.13	247	20
Total credit risk exposures subject to the internal ratings based approach		93,763			38,616	3,090

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

The following table summarises the Banking Group's credit risk exposure by asset class arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the previous tables.

\$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	8,592	6,433	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	3,294	1,923	-	-
Small business	1,089	1,006	-	-
Corporate/Business lending	10,084	10,252	-	-
Sovereign	763	807	-	-
Bank	65	48	-	-
Total	23,887	20,469	-	-

Notes to the financial statements

Note 16 Risk management (continued)

The Banking Group's equity exposures as at 31 March 2016 (Unaudited)

Equity	Total Exposure \$ millions	Risk Weight %	Risk-weighted Exposure ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Equity holdings (not deducted from capital) that are not publicly traded	-	300	-	-
All other holdings (not deducted from capital)	-	400	-	-

The Banking Group's specialised lending: Project and property finance credit risk exposures as at 31 March 2016 (Unaudited)

Supervisory slotting grade	Total Exposures After Credit Risk Mitigation \$ millions	Risk Weight %	Risk-weighted Assets ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Strong	2,820	70.00	2,092	167
Good	3,407	90.00	3,251	260
Satisfactory	936	115.00	1,141	91
Weak	111	250.00	293	23
Default	193	-	-	-
Total	7,467	85.62	6,777	542

The following table summarises the Banking Group's specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	EAD \$ millions	Average Risk Weight %	Risk-weighted Assets ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Undrawn commitments and other off-balance sheet exposures	1,969	74.61	1,557	125

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2016 (Unaudited)

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation \$ millions	Average Risk Weight %	Risk-weighted Exposure ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Property, plant and equipment and other assets	267	100.00	283	23
Related parties	2,049	21.48	466	37
Total on-balance sheet exposures	2,316		749	60

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount \$ millions	Average Credit Conversion Factor %	Credit Equivalent Amount \$ millions	Average Risk Weight %	Risk-weighted Exposure ¹ \$ millions	Minimum Pillar 1 Capital Requirement \$ millions
Market related contracts subject to the standardised approach						
Foreign exchange contracts	14,275	N/A	598	20.00	127	10
Interest rate contracts	36,002	N/A	82	20.00	18	1
Credit value adjustment	-	N/A	-	-	95	8
Total market related contracts subject to the standardised approach	50,277		680		240	19
Standardised subtotal (on and off-balance sheet)			2,996		989	79

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

Notes to the financial statements

Note 16 Risk management (continued)

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2016 (Unaudited)

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

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

LVR range (\$ millions)	The Banking Group 31-Mar-16 (Unaudited)					Total
	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	17,494	8,103	10,449	5,130	1,939	43,115
Undrawn commitments and other off-balance sheet exposures	5,260	1,423	1,314	447	148	8,592
Value of exposures	22,754	9,526	11,763	5,577	2,087	51,707

The Banking Group's reconciliation of residential mortgage-related amounts

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

\$ millions		The Banking Group 31-Mar-16 Unaudited
Term loans - Housing (as disclosed in Note 5) and Residential mortgages - total gross loans (as disclosed in Note 6)		43,464
<i>Reconciling items:</i>		
Unamortised deferred fees and expenses		(178)
Fair value hedge adjustments		(171)
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages		8,592
Residential mortgages by LVR		51,707

16.2 Operational risk

The Banking Group's operational risk capital requirement

\$ millions	The Banking Group 31-Mar-16 (Unaudited)	
	Implied Risk-weighted Exposure	Total Operational Risk Capital Requirement
Methodology implemented		
Advanced Measurement Approach		
Operational risk	4,600	368

16.3 Market risk

Market risk capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with BS2B and is determined for the six months ended 31 March 2016. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 31 March 2016 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2B.

Notes to the financial statements

Note 16 Risk management (continued)

The following table provides a summary of the Banking Group's capital charges by risk type as at the reporting date and the peak end-of-day capital charges by risk type for the six months ended 31 March 2016:

\$ millions	The Banking Group 31-Mar-16 (Unaudited)	
	Implied Risk-weighted Exposure	Aggregate Capital Charge
End-of-period		
Interest rate risk	795	64
Foreign currency risk	-	-
Equity risk	-	-
	795	64
Peak end-of-day		
Interest rate risk	972	78
Foreign currency risk	-	-
Equity risk	-	-

Interest rate sensitivity

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2016. The Banking Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

\$ millions	The Banking Group 31-Mar-16 (Unaudited)						Total
	Up to 3 Months	Over 3 Months and Up to 6 Months	Over 6 Months and Up to 1 Year	Over 1 Year and Up to 2 Years	Over 2 Years	Non- interest Bearing	
Financial assets							
Cash and balances with central banks	1,343	-	-	-	-	180	1,523
Due from other financial institutions	172	-	-	-	-	-	172
Trading securities and other financial assets designated at fair value	1,630	99	59	-	-	-	1,788
Derivative financial instruments	-	-	-	-	-	253	253
Available-for-sale securities	202	101	31	590	2,789	-	3,713
Loans	38,730	4,679	8,679	14,547	5,497	(409)	71,723
Due from related entities	2,020	-	-	-	-	129	2,149
Other assets	-	-	-	-	-	187	187
Total financial assets	44,097	4,879	8,769	15,137	8,286	340	81,508
Non-financial assets							1,007
Total assets							82,515
Financial liabilities							
Due to other financial institutions	76	-	-	-	-	2	78
Deposits and other borrowings	38,555	6,487	4,591	1,230	635	4,467	55,965
Other financial liabilities at fair value through income statement	157	-	-	-	-	-	157
Derivative financial instruments	-	-	-	-	-	461	461
Debt issues	7,402	202	1,375	-	5,769	-	14,748
Other liabilities	-	-	-	-	-	403	403
Due to related entities	2,113	-	-	-	1	783	2,897
Subordinated notes	1,152	-	-	-	-	-	1,152
Total financial liabilities	49,455	6,689	5,966	1,230	6,405	6,116	75,861
Non-financial liabilities							176
Total liabilities							76,037
On-balance sheet interest rate repricing gap	(5,358)	(1,810)	2,803	13,907	1,881		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	16,019	(1,803)	(2,670)	(10,567)	(979)		
Net interest rate repricing gap	10,661	(3,613)	133	3,340	902		

Notes to the financial statements

Note 16 Risk management (continued)

16.4 Liquidity risk

Liquid assets

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

	The Banking Group
	31-Mar-16
\$ millions	Unaudited
Cash and balances with central banks	1,523
Due from other financial institutions (included in due from related entities)	614
Supranational securities	1,337
NZ Government securities	2,120
NZ public securities	1,234
NZ corporate securities	1,302
Residential mortgage-backed securities	3,992
Total liquid assets	12,122

Note 16 Risk management (continued)

Contractual maturity of financial instruments

The following table presents cash flows associated with financial instruments receivable or payable at the balance sheet date, by remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Banking Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with these instruments include both principal payments as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivatives designed for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows derived as the fixed rate and/or the expected variable rate applied to the notional amount over the remaining contractual term and where relevant includes the receipt and payment of the notional amount under the contract. Foreign exchange financial instruments have been translated to New Zealand dollars using the closing spot rates at the end of the period.

The balances in the table below will not necessarily agree to amounts presented on the face of the balance sheet as amounts in the table incorporate cash flows on an undiscounted basis and include both principal and associated future interest payments.

Other financial assets and liabilities at fair value through income statement are not all managed for liquidity purposes on the basis of their contractual maturity. The financial assets and liabilities that are managed based on their contractual maturity are presented on a contractual undiscounted basis in the table below:

\$ millions	The Banking Group 31-Mar-16 (Unaudited)						Total
	On Demand	Up to 1 Month	Over 1 Month and Up to 3 Months	Over 3 Months and Up to 1 Year	Over 1 Year and Up to 5 Years	Over 5 Years	
Financial assets							
Cash and balances with central banks	1,523	-	-	-	-	-	1,523
Due from other financial institutions	-	172	-	-	-	-	172
Trading securities and other financial assets designated at fair value	-	819	425	241	341	-	1,826
Derivative financial instruments:							
Held for trading	3	-	-	-	-	-	3
Held for hedging purposes (net settled)	-	2	-	4	22	-	28
Held for hedging purposes (gross settled):							
Cash outflow	-	(8)	(29)	(1,081)	(2,689)	(1,160)	(4,967)
Cash inflow	-	2	11	1,015	2,633	954	4,615
Available-for-sale securities	-	6	231	251	3,233	268	3,989
Loans	5,551	7,763	4,283	6,888	25,034	56,915	106,434
Due from related entities:							
Non-derivative balances	1,389	652	-	-	-	-	2,041
Derivative financial instruments:							
Held for trading	24	-	-	-	-	-	24
Held for hedging purposes (net settled)	-	(5)	(6)	51	49	-	89
Other assets	-	54	-	-	-	-	54
Total undiscounted financial assets	8,490	9,457	4,915	7,369	28,623	56,977	115,831
Financial liabilities							
Due to other financial institutions	1	77	-	-	-	-	78
Deposits and other borrowings	29,798	3,945	9,507	11,400	2,004	-	56,654
Other financial liabilities at fair value through income statement	-	157	-	-	-	-	157
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	2	11	61	151	8	233
Held for hedging purposes (gross settled):							
Cash outflow	-	8	1,807	282	2,476	-	4,573
Cash inflow	-	-	(1,722)	(237)	(2,218)	-	(4,177)
Debt issues	-	231	2,582	3,689	7,883	954	15,339
Other liabilities	-	80	-	-	-	-	80
Due to related entities:							
Non-derivative balances	760	5	48	1,329	8	-	2,150
Derivative financial instruments:							
Held for trading	43	-	-	-	-	-	43
Held for hedging purposes (net settled)	-	18	54	217	227	-	516
Held for hedging purposes (gross settled):							
Cash outflow	-	-	32	1,549	1,435	-	3,016
Cash inflow	-	-	(15)	(1,337)	(1,357)	-	(2,709)
Subordinated notes	-	-	15	43	1,388	-	1,446
Total undiscounted financial liabilities	30,602	4,523	12,319	16,996	11,997	962	77,399
Total contingent liabilities and commitments							
Commitments to extend credit	25,007	-	-	-	-	-	25,007
Other commitments	-	-	-	-	-	-	-
Total undiscounted contingent liabilities and commitments	25,007	-	-	-	-	-	25,007

Notes to the financial statements

Note 17 Concentration of funding

	The Banking Group 31-Mar-16 Unaudited
\$ millions	
Funding consists of	
Due to other financial institutions	78
Deposits and other borrowings	55,965
Other financial liabilities at fair value through income statement	157
Debt issues ¹	14,748
Due to related entities ²	2,114
Subordinated notes	1,152
Total funding	74,214
Analysis of funding by geographical areas¹	
New Zealand	57,583
Australia	1,030
United Kingdom	10,559
United States of America	1,917
Other	3,125
Total funding	74,214
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	344
Agriculture	1,190
Construction	1,622
Finance and insurance	25,410
Forestry and fishing	187
Government, administration and defence	1,830
Manufacturing	1,509
Mining	50
Property services and business services	5,695
Services	4,281
Trade	1,554
Transport and storage	454
Utilities	639
Households	23,326
Other	4,009
Subtotal	72,100
Due to related entities ²	2,114
Total funding	74,214

¹ The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programme is used as a proxy for the location of the original purchaser. Where the nature of the debt programme does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other.' These instruments may have subsequently been on-sold.

² Amounts due to related entities, as presented above, are in respect of intra-group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

Australian and New Zealand Standard Industrial Classifications ('ANZSIC') have been used as the basis for disclosing industry sectors.

Note 18 Concentration of credit exposures

\$ millions	The Banking Group 31-Mar-16 Unaudited
On-balance sheet credit exposures consists of	
Cash and balances with central banks	1,523
Due from other financial institutions	172
Trading securities and other financial assets designated at fair value	1,788
Derivative financial instruments	253
Available-for-sale securities	3,713
Loans	71,723
Due from related entities	2,149
Other assets	187
Total on-balance sheet credit exposures	81,508
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	600
Agriculture	8,022
Construction	1,332
Finance and insurance	6,163
Forestry and fishing	287
Government, administration and defence	4,552
Manufacturing	2,639
Mining	397
Property	12,355
Property services and business services	2,266
Services	2,608
Trade	3,218
Transport and storage	1,521
Utilities	1,533
Retail lending	32,221
Subtotal	79,714
Provisions for impairment charges on loans	(409)
Due from related entities	2,149
Other assets	54
Total on-balance sheet credit exposures	81,508
Off-balance sheet credit exposures	
Credit risk-related instruments	25,840
Total off-balance sheet credit exposures	25,840
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	129
Agriculture	771
Construction	478
Finance and insurance	1,948
Forestry and fishing	63
Government, administration and defence	648
Manufacturing	2,114
Mining	181
Property	2,855
Property services and business services	766
Services	1,285
Trade	3,065
Transport and storage	1,017
Utilities	1,598
Retail lending	8,922
Total off-balance sheet credit exposures	25,840

ANZSIC have been used as the basis for disclosing industry sectors.

Notes to the financial statements

Note 18 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

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

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

- as at 31 March 2016 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 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:

- As at 31 March 2016:
 - those that have a long-term credit rating of A- or A3 or above, or its equivalent, was two counterparties, with one having an aggregate credit exposure between 10%-14% and the other having an aggregate credit exposure between 25%-29%; and
 - those that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent, was nil.
- Peak end-of-day aggregate credit exposure for the three months ended 31 March 2016:
 - those that have a long-term credit rating of A- or A3 or above, or its equivalent, was three counterparties, with two having a peak end-of-day aggregate credit exposure between 10%-14% and the other having a peak end-of-day aggregate credit exposure between 25%-29%; and
 - those that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent, was nil.

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.



Independent Auditors' Review Report

To the shareholder of Westpac New Zealand Limited

Report on the Financial Statements

We have reviewed pages 4 to 28 of the half year Disclosure Statement of Westpac New Zealand Limited (the "Bank") which consists of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 March 2016, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the Banking Group. The "Banking Group" comprises the Bank and the entities it controlled at 31 March 2016 or from time to time during the period.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the "Directors") are responsible on behalf of the Bank for the preparation and presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and that present fairly the financial position of the Banking Group as at 31 March 2016, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors, based on our review.

Our responsibility is to express a conclusion on the financial statements (excluding the supplementary information) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34:

Interim Financial Reporting and International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to capital adequacy whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not in all material respects:

- (a) prepared in accordance with the Bank's Conditions of Registration;
- (b) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- (c) disclosed in accordance with Schedule 11 of the Order.

Independent auditors' review report (continued)



Independent Auditors' Review Report

Westpac New Zealand Limited

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). As the auditors of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

We are independent of the Banking Group. We carry out other assignments on behalf of the Banking Group in the areas of other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other interests in the Banking Group or Westpac Banking Corporation Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the financial statements on pages 4 to 28 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*;
- (b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- (c) the supplementary information relating to capital adequacy prescribed by Schedule 11 of the Order, is not, in all material respects:
 - (i) prepared in accordance with the Bank's Conditions of Registration;
 - (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
 - (iii) disclosed in accordance with Schedule 11 of the Order.

Restriction on Use of our Report

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

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written over a light blue horizontal line.

Chartered Accountants

20 May 2016

Auckland

