

Westpac New Zealand Limited

Disclosure Statement

For the nine months ended 30 June 2015



Contents

1	General information and definitions
1	Limits on material financial support by the ultimate parent bank
1	Directors
1	Credit ratings
1	Guarantee arrangements
1	Conditions of registration
2	Directors' statement
3	Consolidated income statement
4	Consolidated statement of comprehensive income
5	Consolidated statement of changes in equity
6	Consolidated balance sheet
7	Consolidated statement of cash flows
8	Notes to the financial statements
8	Note 1 Statement of accounting policies
9	Note 2 Non-interest income
9	Note 3 Impairment charges on loans
10	Note 4 Trading securities and other financial assets designated at fair value
10	Note 5 Loans
10	Note 6 Credit quality, impaired assets and provisions for impairment charges on loans
11	Note 7 Deposits and other borrowings
11	Note 8 Debt issues
12	Note 9 Related entities
12	Note 10 Fair value of financial instruments
14	Note 11 Commitments and contingent liabilities
14	Note 12 Segment information
15	Note 13 Insurance business
16	Note 14 Capital adequacy
17	Note 15 Risk management
17	15.1 Credit risk
18	15.2 Liquidity risk
18	Note 16 Concentration of credit exposures to individual counterparties
18	Note 17 Events after the reporting date

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

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

Directors

David Alexander McLean was appointed as a Director of the Bank on 2 February 2015. Peter David Wilson retired as Chair of the Board on 19 February 2015 and retired as a Director of the Bank on 28 February 2015. Janice Amelia Dawson was appointed Chair of the Board on 19 February 2015. Jonathan Parker Mason was appointed as a Director of the Bank on 18 June 2015. There have been no other changes in the composition of the Board of Directors of the Bank since 30 September 2014.

Credit ratings

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

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

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

Guarantee arrangements

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

Conditions of registration

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

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 2015:

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

This Disclosure Statement has been signed by all the Directors:



Janice Amelia Dawson



David Alexander McLean



Malcolm Guy Bailey



Philip Matthew Coffey



Jonathan Parker Mason



Christopher John David Moller

Dated this 19th day of August 2015

Consolidated income statement for the nine months ended 30 June 2015

\$ millions	Note	The Banking Group		
		Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
Interest income		3,297	2,910	3,979
Interest expense		(1,965)	(1,700)	(2,339)
Net interest income		1,332	1,210	1,640
Non-interest income	2	300	383	480
Net operating income		1,632	1,593	2,120
Operating expenses		(641)	(614)	(817)
Impairment charges on loans	3	(45)	(6)	(26)
Operating profit		946	973	1,277
Share of profit of associate accounted for using the equity method		-	-	1
Profit before income tax expense		946	973	1,278
Income tax expense		(257)	(250)	(337)
Profit after income tax expense		689	723	941
Profit after income tax expense attributable to:				
Owners of the Banking Group		687	721	938
Non-controlling interests		2	2	3
		689	723	941

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

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

\$ millions	The Banking Group		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
Profit after income tax expense	689	723	941
Other comprehensive (expense)/income which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised gains from changes in fair value of available-for-sale securities	1	21	24
Transferred to the income statement (refer to Note 2)	(19)	(88)	(88)
Exchange differences	-	(3)	(3)
Income tax effect	5	(3)	(4)
Cash flow hedges:			
Net (losses)/gains from changes in fair value of cash flow hedges	(102)	14	(58)
Transferred to the income statement	8	(20)	32
Income tax effect	26	2	7
Total other comprehensive expense which may be reclassified subsequently to the income statement	(81)	(77)	(90)
Other comprehensive (expense)/income which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	(7)	-	4
Income tax effect	2	-	(1)
Total other comprehensive (expense)/income which will not be reclassified subsequently to the income statement	(5)	-	3
Total other comprehensive expense, net of tax	(86)	(77)	(87)
Total comprehensive income	603	646	854
Total comprehensive income attributable to:			
Owners of the Banking Group	601	644	851
Non-controlling interests	2	2	3
	603	646	854

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

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

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 2013 (Audited)	4,600	1,831	106	36	6,573	6	6,579
Nine months ended 30 June 2014 (Unaudited)							
Profit after income tax expense	-	721	-	-	721	2	723
Net gains from changes in fair value	-	-	21	14	35	-	35
Income tax effect	-	-	(3)	(4)	(7)	-	(7)
Exchange differences	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(88)	(20)	(108)	-	(108)
Income tax effect	-	-	-	6	6	-	6
Total comprehensive income for the nine months ended 30 June 2014	-	721	(73)	(4)	644	2	646
Transactions with owners:							
Ordinary share capital repurchased	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	(375)	-	-	(375)	(3)	(378)
As at 30 June 2014 (Unaudited)	4,150	2,177	33	32	6,392	5	6,397
Year ended 30 September 2014 (Audited)							
Profit after income tax expense	-	938	-	-	938	3	941
Net gains /(losses) from changes in fair value	-	-	24	(58)	(34)	-	(34)
Income tax effect	-	-	(4)	16	12	-	12
Exchange differences	-	-	(3)	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-	-
Transferred to the income statement	-	-	(88)	32	(56)	-	(56)
Income tax effect	-	-	-	(9)	(9)	-	(9)
Remeasurement of employee defined benefit obligations	-	4	-	-	4	-	4
Income tax effect	-	(1)	-	-	(1)	-	(1)
Total comprehensive income for the year ended 30 September 2014	-	941	(71)	(19)	851	3	854
Transactions with owners:							
Share capital repurchased	(450)	-	-	-	(450)	-	(450)
Dividends paid on ordinary shares	-	(375)	-	-	(375)	(3)	(378)
As at 30 September 2014 (Audited)	4,150	2,397	35	17	6,599	6	6,605
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 (refer to Note 9)	(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

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 30 June 2015

\$ millions	Note	The Banking Group		
		30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Assets				
Cash and balances with central banks		1,908	1,724	1,903
Due from other financial institutions		157	321	553
Trading securities and other financial assets designated at fair value	4	2,323	1,821	1,216
Derivative financial instruments		315	3	73
Available-for-sale securities		3,385	2,891	3,010
Loans	5, 6	67,747	63,788	64,582
Due from related entities		2,766	1,918	1,852
Investment in associate		48	48	48
Property, plant and equipment		162	157	178
Current tax assets		17	30	-
Deferred tax assets		177	150	144
Goodwill and other intangible assets		641	679	662
Other assets		253	331	228
Total assets		79,899	73,861	74,449
Liabilities				
Due to other financial institutions		579	5	201
Deposits and other borrowings	7	53,305	49,510	50,570
Other financial liabilities at fair value through income statement		165	-	90
Derivative financial instruments		257	332	186
Debt issues	8	14,505	13,437	12,592
Current tax liabilities		-	-	45
Due to related entities		3,720	3,580	3,437
Provisions		70	75	76
Other liabilities		545	525	647
Total liabilities		73,146	67,464	67,844
Net assets		6,753	6,397	6,605
Equity				
Share capital		3,700	4,150	4,150
Retained profits		3,079	2,177	2,397
Available-for-sale securities reserve		22	33	35
Cash flow hedge reserve		(51)	32	17
Total equity attributable to owners of the Banking Group		6,750	6,392	6,599
Non-controlling interests		3	5	6
Total equity		6,753	6,397	6,605
Interest earning and discount bearing assets		77,953	72,456	72,893
Interest and discount bearing liabilities		67,791	62,243	62,989

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

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

\$ millions	The Banking Group		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
Cash flows from operating activities			
Interest income received	3,303	2,905	3,965
Interest expense paid	(1,806)	(1,688)	(2,340)
Non-interest income received	286	289	390
Operating expenses paid	(575)	(539)	(729)
Income tax paid	(325)	(273)	(274)
Cash flows from operating activities before changes in operating assets and liabilities	<u>883</u>	<u>694</u>	<u>1,012</u>
Net (increase)/decrease in:			
Due from other financial institutions	106	(148)	11
Trading securities and other financial assets designated at fair value	(1,107)	(230)	488
Loans	(3,107)	(2,356)	(3,051)
Due from related entities	(769)	(318)	(34)
Other assets	-	(1)	(1)
Net increase/(decrease) in:			
Due to other financial institutions	378	(95)	101
Deposits and other borrowings	2,698	1,295	2,392
Other financial liabilities at fair value through income statement	75	-	90
Other liabilities	4	5	3
Net movement in external and related entity derivative financial instruments	<u>283</u>	<u>(213)</u>	<u>(495)</u>
Net cash (used in)/provided by operating activities	<u>(556)</u>	<u>(1,367)</u>	<u>516</u>
Cash flows from investing activities			
Purchase of available-for-sale securities	(915)	(293)	(430)
Proceeds from maturities/sale of available-for-sale securities	506	133	171
Purchase of capitalised computer software	(26)	(55)	(59)
Purchase of property, plant and equipment	(11)	(9)	(40)
Net cash used in investing activities	<u>(446)</u>	<u>(224)</u>	<u>(358)</u>
Cash flows from financing activities			
Share capital repurchased	(450)	(450)	(450)
Net increase in debt issues	1,145	2,275	736
Net increase in due to related entities	27	64	424
Payment of dividends to ordinary shareholders	-	(375)	(375)
Payment of dividends to minority shareholders	(5)	(3)	(3)
Net cash provided by financing activities	<u>717</u>	<u>1,511</u>	<u>332</u>
Net (decrease)/increase in cash and cash equivalents	<u>(285)</u>	<u>(80)</u>	<u>490</u>
Cash and cash equivalents at beginning of the period/year	<u>2,294</u>	<u>1,804</u>	<u>1,804</u>
Cash and cash equivalents at end of the period/year	<u>2,009</u>	<u>1,724</u>	<u>2,294</u>
Cash and cash equivalents at end of the period/year comprise:			
Cash and balances with central banks	1,908	1,724	1,903
Due from other financial institutions	101	-	391
Cash and cash equivalents at end of the period/year	<u>2,009</u>	<u>1,724</u>	<u>2,294</u>

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

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

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

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

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* ('**NZ IAS 34**') and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2014 and for the periods ended 31 December 2014 and 31 March 2015. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

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

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

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 19 August 2015. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

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

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

Notes to the financial statements

Note 2 Non-interest income

\$ millions	The Banking Group		
	Nine Months Ended 30-Jun-15 Unaudited	Nine Months Ended 30-Jun-14 Unaudited	Year Ended 30-Sep-14 Audited
Fees and commissions			
Transaction fees and commissions	198	216	284
Lending fees (loan and risk)	46	47	64
Management fees received from related entities	5	3	6
Other non-risk fee income	25	23	32
Total fees and commissions	274	289	386
Net ineffectiveness on qualifying hedges	(5)	2	-
Other non-interest income			
Net unrealised gains/(losses) on derivatives held for trading	1	(1)	-
Dividend income	2	2	2
Gain on sale of available-for-sale securities ¹	19	88	88
Other	9	3	4
Total other non-interest income	31	92	94
Total non-interest income	300	383	480

¹ During the nine months ended 30 June 2015, the Bank realised a gain of \$19 million upon the sale of its holding of available-for-sale equity securities (30 June 2014: \$88 million, 30 September 2014: \$88 million). Of the gain realised for the year ended 30 September 2014, \$41 million was in respect of available-for-sale overseas equity securities which were sold to Westpac Banking Corporation (the 'Ultimate Parent Bank').

Note 3 Impairment charges on loans

\$ millions	The Banking Group			
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	Total
Nine months ended 30 June 2015 (Unaudited)				
Collectively assessed provisions	(8)	11	(3)	-
Individually assessed provisions	8	-	26	34
Bad debts written-off directly to the income statement	2	28	1	31
Interest adjustments	(2)	(8)	(10)	(20)
Total impairment charges on loans	-	31	14	45
Nine months ended 30 June 2014 (Unaudited)				
Collectively assessed provisions	-	7	(9)	(2)
Individually assessed provisions	7	-	(8)	(1)
Bad debts written-off/(recovered) directly to the income statement	1	30	(2)	29
Interest adjustments	(3)	(7)	(10)	(20)
Total impairment charges/(recoveries) on loans	5	30	(29)	6
Year ended 30 September 2014 (Audited)				
Collectively assessed provisions	(2)	4	(27)	(25)
Individually assessed provisions	7	-	32	39
Bad debts written-off/(recovered) directly to the income statement	2	38	(1)	39
Interest adjustments	(3)	(10)	(14)	(27)
Total impairment charges/(recoveries) on loans	4	32	(10)	26

Notes to the financial statements

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

\$ millions	The Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Certificates of deposit	1,231	1,319	607
Corporate bonds	245	272	272
Local authority and NZ public securities	739	230	337
Securities purchased under agreement to resell	108	-	-
Total trading securities and other financial assets designated at fair value	2,323	1,821	1,216

As at 30 June 2015, \$10 million of trading securities and other financial assets designated at fair value were encumbered through repurchase agreements with the New Zealand Branch of the Ultimate Parent Bank ('**NZ Branch**') (30 June 2014: nil, 30 September 2014: nil). As at 30 June 2015, no trading securities and other financial assets designated at fair value were encumbered through repurchase agreements with third parties (30 June 2014: nil, 30 September 2014: nil).

Note 5 Loans

\$ millions	The Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Overdrafts	1,202	1,064	1,153
Credit card outstandings	1,593	1,385	1,405
Money market loans	1,272	1,022	1,082
Term loans:			
Housing	41,227	39,283	39,702
Non-housing	22,028	21,043	21,146
Other	861	434	536
Total gross loans	68,183	64,231	65,024
Provisions for impairment charges on loans	(436)	(443)	(442)
Total net loans	67,747	63,788	64,582

As at 30 June 2015, \$5,124 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 2014: \$4,228 million, 30 September 2014: \$4,002 million). These housing loans were not derecognised from the Bank's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements included in the Disclosure Statement for the year ended 30 September 2014. As at 30 June 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$2,927 million (30 June 2014: \$3,212 million, 30 September 2014: \$3,360 million).

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

\$ millions	The Banking Group 30-Jun-15 Unaudited			Total
	Residential Mortgages	Other Loans for Consumer Purposes	Loans for Business Purposes	
Neither past due nor impaired	40,013	2,031	24,117	66,161
Past due assets:				
Less than 90 days past due	1,101	128	324	1,553
At least 90 days past due	50	15	37	102
Total past due assets	1,151	143	361	1,655
Individually impaired assets	63	-	304	367
Total gross loans	41,227	2,174	24,782	68,183
Individually assessed provisions	19	-	119	138
Collectively assessed provisions	58	82	189	329
Total provisions for impairment charges on loans and credit commitments	77	82	308	467
Provision for credit commitments	-	-	(31)	(31)
Total provisions for impairment charges on loans	77	82	277	436
Total net loans	41,150	2,092	24,505	67,747

Notes to the financial statements

Note 7 Deposits and other borrowings

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

Note 8 Debt issues

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

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

Notes to the financial statements

Note 9 Related entities

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

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

Effective 1 October 2014, the Bank and the NZ Branch entered into an agreement whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products. This is treated as a financial guarantee for accounting purposes.

On 19 August 2015, the Board resolved to pay an unimputed dividend of \$600 million on ordinary shares and to issue 600 million ordinary shares at a price of \$1 per share to its immediate parent company, WNZGL.

Note 10 Fair value of financial instruments

Fair valuation control framework

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

Quoted price in an active market

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

Valuation techniques

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

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

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

Fair value hierarchy

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

- **Quoted market price ('Level 1')**
Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities.
Financial instruments included in the Level 1 category are NZ Government securities (30 June 2014: NZ Government securities, 30 September 2014: NZ Government securities).
- **Valuation techniques using observable inputs ('Level 2')**
Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.
Financial instruments included in the Level 2 category are:
 - deposits and other borrowings at fair value, other financial liabilities at fair value through income statement, debt issues at fair value, securities purchased under agreement to resell with related entities, securities sold under agreement to repurchase with related entities, and trading and available-for-sale debt securities including certificates of deposit, corporate bonds, local authority and NZ public securities and securities purchased under agreement to resell; and
 - derivatives, including interest rate swaps and cross currency swaps, with external and related parties.
- **Valuation techniques with significant non-observable inputs ('Level 3')**
Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions.
These valuations are calculated using a high degree of management judgment.
There are no financial instruments included in the Level 3 category (30 June 2014: NZ unlisted equity securities, 30 September 2014: NZ unlisted equity securities).
A financial instrument's categorisation within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

Notes to the financial statements

Note 10 Fair value of financial instruments (continued)

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

\$ millions	The Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Available-for-sale securities			
Level 1	1,613	1,971	1,975
Level 2	1,772	892	993
Level 3 ¹	-	28	42
Total available-for-sale securities	3,385	2,891	3,010

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

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

There have been no significant transfers into/out of Level 1, 2 or 3 during the nine months ended 30 June 2015 (30 June 2014: nil, 30 September 2014: nil).

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

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

\$ millions	30-Jun-15 Unaudited		The Banking Group 30-Jun-14 Unaudited		30-Sep-14 Audited	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	67,747	67,921	63,788	63,621	64,582	64,452
Total	67,747	67,921	63,788	63,621	64,582	64,452
Financial liabilities						
Deposits and other borrowings	51,443	51,519	48,280	48,335	49,416	49,459
Debt issues	10,950	11,059	10,697	10,861	9,573	9,704
Total	62,393	62,578	58,977	59,196	58,989	59,163

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

Notes to the financial statements

Note 11 Commitments and contingent liabilities

\$ millions	The Banking Group		
	30-Jun-15 Unaudited	30-Jun-14 Unaudited	30-Sep-14 Audited
Commitments for capital expenditure			
Due within one year	3	8	3
Lease commitments (all leases are classified as operating leases)			
Premises and sites	240	276	277
Motor vehicles	6	7	7
Total lease commitments	246	283	284
Lease commitments are due as follows:			
One year or less	60	61	64
Between one and five years	147	159	162
Over five years	39	63	58
Total lease commitments	246	283	284
Other contingent liabilities and commitments			
Standby letters of credit and financial guarantees	170	238	241
Trade letters of credit	108	109	118
Non-financial guarantees	607	611	611
Commitments to extend credit	23,684	21,053	21,514
Other commitments	122	-	150
Total other contingent liabilities and commitments	24,691	22,011	22,634

As at 30 June 2015, \$270 million of available-for-sale securities were pledged as collateral for the Banking Group's liabilities under repurchase agreements (30 June 2014: \$58 million, 30 September 2014: \$457 million). Of this amount \$105 million was pledged as collateral to the NZ Branch (30 June 2014: \$58 million, 30 September 2014: \$367 million) which is recorded within Due to related entities and \$165 million was pledged to third parties (30 June 2014: nil, 30 September 2014: \$90 million) which is recorded as Other financial liabilities at fair value through income statement.

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

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

Note 12 Segment information

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

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

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

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

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

Reconciling items primarily represent:

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

Notes to the financial statements

Note 12 Segment information (continued)

\$ millions	The Banking Group				Total
	Retail Banking	Business Bank and Wealth	Corporate and Institutional	Reconciling Items ¹	
Nine months ended 30 June 2015 (Unaudited)					
Net interest income	601	280	270	181	1,332
Non-interest income	138	144	86	(68)	300
Net operating income	739	424	356	113	1,632
Net operating income from external customers	989	462	657	(476)	1,632
Net internal interest expense	(250)	(38)	(301)	589	-
Net operating income	739	424	356	113	1,632
Operating expenses	(118)	(58)	(37)	(428)	(641)
Impairment (charges)/recoveries on loans	(30)	1	(23)	7	(45)
Profit before income tax expense	591	367	296	(308)	946
Total gross loans	31,251	15,289	21,636	7	68,183
Total deposits	24,636	14,839	11,968	1,862	53,305
Nine months ended 30 June 2014 (Unaudited)					
Net interest income	542	257	271	140	1,210
Non-interest income	147	146	65	25	383
Net operating income	689	403	336	165	1,593
Net operating income from external customers	918	433	599	(357)	1,593
Net internal interest expense	(229)	(30)	(263)	522	-
Net operating income	689	403	336	165	1,593
Operating expenses	(117)	(58)	(37)	(402)	(614)
Impairment (charges)/recoveries on loans	(33)	(1)	15	13	(6)
Profit before income tax expense	539	344	314	(224)	973
Total gross loans	29,881	14,507	19,973	(130)	64,231
Total deposits	22,826	13,566	11,888	1,230	49,510
Year ended 30 September 2014 (Audited)					
Net interest income	738	350	365	187	1,640
Non-interest income	198	193	90	(1)	480
Net operating income	936	543	455	186	2,120
Net operating income from external customers	1,248	584	818	(530)	2,120
Net internal interest expense	(312)	(41)	(363)	716	-
Net operating income	936	543	455	186	2,120
Operating expenses	(155)	(77)	(48)	(537)	(817)
Impairment (charges)/recoveries on loans	(36)	(2)	-	12	(26)
Share of profit of associate accounted for using the equity method	-	-	-	1	1
Profit before income tax expense	745	464	407	(338)	1,278
Total gross loans	30,174	14,649	20,315	(114)	65,024
Total deposits	23,217	13,753	12,446	1,154	50,570

¹ Included in the reconciling items for total operating expenses is \$460 million (30 June 2014: \$425 million; 30 September 2014: \$569 million) of head office operating expenses, which are not allocated to a business unit that meets the definition of an operating segment.

Note 13 Insurance business

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

Notes to the financial statements

Note 14 Capital adequacy

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

During the nine months ended 30 June 2015, 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-15 Unaudited
Tier One Capital	
Common Equity Tier One Capital ¹	6,750
<i>Less deductions from Common Equity Tier One Capital</i>	<i>(931)</i>
Total Common Equity Tier One Capital	5,819
Additional Tier One Capital	2
<i>Less deductions from Additional Tier One Capital</i>	<i>-</i>
Total Tier One Capital	5,821
Tier Two Capital	-
<i>Less deductions from Tier Two Capital</i>	<i>-</i>
Total Capital	5,821

¹ Common Equity Tier One Capital includes available-for-sale securities reserve of \$22 million and cash flow hedge reserve of \$(51) million.

Capital ratios

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

%	The Banking Group 30-Jun-15 Unaudited
Capital adequacy ratios	
Common Equity Tier One Capital ratio	11.8%
Tier One Capital ratio	11.8%
Total Capital ratio	11.8%
Reserve Bank minimum ratios	
Common Equity Tier One Capital ratio	4.5%
Tier One Capital ratio	6.0%
Total Capital ratio	8.0%
Buffer ratios	
Buffer ratio	3.8%
Buffer ratio requirement	2.5%

Note 14 Capital adequacy (continued)**The Banking Group Pillar 1 total capital requirement**

\$ millions	The Banking Group 30-Jun-15 Unaudited
Credit risk	
Exposures subject to the internal ratings based approach:	
Residential mortgages	1,191
Other retail (credit cards, personal loans, personal overdrafts)	275
Small business	60
Banking Group - Corporate/Business lending	1,354
Sovereign	18
Bank	24
Total exposures subject to the internal ratings based approach	2,922
Exposures not subject to the internal ratings based approach:	
Equity exposures	-
Specialised lending subject to the slotting approach	483
Exposures subject to the standardised approach	96
Total exposures not subject to the internal ratings based approach	579
Total credit risk (scaled)¹	3,501
Operational risk	386
Market risk	64
Supervisory adjustment	-
Total	3,951

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

Capital for other material risk

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

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

\$ millions	The Banking Group 30-Jun-15 Unaudited
Internal capital allocation	
Other material risk	691

Note 15 Risk management**15.1 Credit risk****The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 June 2015 (Unaudited)**

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

LVR range (\$ millions)	The Banking Group 30-Jun-15 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	16,069	7,390	10,143	5,163	2,206	40,971
Undrawn commitments and other off-balance sheet exposures	4,980	1,319	1,272	432	159	8,162
Value of exposures	21,049	8,709	11,415	5,595	2,365	49,133

Notes to the financial statements

Note 15 Risk Management (continued)

15.2 Liquidity risk

Liquid assets

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

\$ millions	The Banking Group
	30-Jun-15 Unaudited
Cash and balances with central banks	1,908
Due from other financial institutions	101
Due from other financial institutions (included in due from related entities)	538
Supranational securities	1,168
NZ Government securities	2,259
NZ public securities	1,290
NZ corporate securities	1,530
Residential mortgage-backed securities	3,992
Total liquid assets	12,786

Note 16 Concentration of credit exposures to individual counterparties

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

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

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

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the 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 2015 was two counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having an aggregate credit exposure between 15%-19% and the other having an aggregate credit exposure between 20%-24%; and
- for the three months ended 30 June 2015 was three counterparties with a credit rating of A- or A3 or above, or its equivalent, with one having a peak end-of-day aggregate credit exposure between 10%-14%, one having a peak end-of-day aggregate credit exposure between 15%-19% and the other having a peak end-of-day aggregate credit exposure between 20%-24%.

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

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

Note 17 Events after the reporting date

The Board has resolved to issue up to AU\$1.25 billion of convertible term subordinated notes to the Ultimate Parent Bank ('**Tier Two Notes**'). The Tier Two Notes are expected to be issued on 8 September 2015 to the London Branch of the Ultimate Parent Bank and will qualify as Tier Two capital for the Bank. The final amount of Tier Two Notes to be issued will be determined closer to the issue date, taking into account the regulatory capital position of the Bank at that time. The Board has also resolved to repurchase up to \$720 million of ordinary shares of the Bank from WNZGL at or around the same time as part of the Bank's capital management activities. The final amount of the repurchase will be determined closer to the repurchase date.

On 19 August 2015, the Board resolved to pay an unimputed dividend of \$600 million on ordinary shares and to issue 600 million ordinary shares at a price of \$1 per share to its immediate parent company, WNZGL.

