Westpac New Zealand Limited
Disclosure Statement

For the three months ended 31 December 2015

Contents

General information and definitions

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

In this Disclosure Statement, reference is made to:

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

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

Limits on material financial support by the ultimate parent bank

In late 2014, Australian Prudential Regulation Authority ('**APRA**') initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed 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 December 2015, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the new limit was approximately 7.6% of Level 1 Tier 1 Capital of the Ultimate Parent Bank. Non-equity exposure would need to reduce by approximately $1 billion from the 31 December 2015 position to comply with the 5% limit. The 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

There have been no 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

The Bank's conditions of registration were amended on 28 October 2015 with effect from 1 November 2015. The key amendments:

- impose revised high loan to value ratio ('**LVR**') restrictions in line with the revised Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19) and also remove certain conditions relating to high-LVR restrictions. The new high-LVR restrictions restrict new residential property investment loans in the Auckland region at LVRs of greater than 70 percent to 5 percent of the total of new residential property investment loans in Auckland, retain the existing 10 percent limit for new owner-occupier mortgage loans in the Auckland region at LVRs greater than 80 percent and increase the limit on new residential mortgage loans at LVRs greater than 80 percent outside of Auckland to 15 percent of the total of new residential mortgage loans outside of Auckland;
- refer to a revised version of the Capital Adequacy Framework (Internal Models Based Approach) ('**BS2B**'). The changes to BS2B include a new asset classification and capital treatment for residential mortgage loans which are for property investment purposes and an asset classification and capital treatment of reverse mortgages;
- refer to a revised version of "Application for Capital Recognition or Repayment" (BS16) and include in the conditions that the Bank must receive a notice of non-objection from the Reserve Bank before recognising any Additional Tier 1 or Tier 2 instrument as capital and meet certain notification and capital repayment approval obligations; and
- remove superseded references to the Financial Reporting Act 1993 from the conditions and from BS2B.

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 three months ended 31 December 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 February 2016

Consolidated income statement for the three months ended 31 December 2015

		The Banking Group		
$ millions	Note	**Three Months Ended 31-Dec-15 Unaudited**	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Interest income		**1,067**	1,099	4,397
Interest expense		**(626)**	(659)	(2,607)
Net interest income		**441**	440	1,790
Non-interest income	2	**89**	101	399
Net operating income		**530**	541	2,189
Operating expenses		**(223)**	(214)	(888)
Impairment recoveries/(charges) on loans	3	**1**	(19)	(47)
Operating profit		**308**	308	1,254
Profit before income tax expense		**308**	308	1,254
Income tax expense		**(86)**	(86)	(343)
Profit after income tax expense		**222**	222	911
Profit after income tax expense attributable to:				
Owners of the Banking Group		**222**	221	908
Non-controlling interests		**-**	1	3
		222	222	911

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

Consolidated statement of comprehensive income for the three months ended 31 December 2015

$ millions	The Banking Group Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Profit after income tax expense	**222**	222	911
Other comprehensive expense which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised losses from changes in fair value of available-for-sale securities	**(7)**	-	(8)
Transferred to the income statement (refer to Note 2)	**-**	-	(19)
Income tax effect	**2**	-	8
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	**(34)**	(51)	(152)
Transferred to the income statement	**23**	4	23
Income tax effect	**3**	13	37
Total other comprehensive expense which may be reclassified subsequently to the income statement	**(13)**	(34)	(111)
Other comprehensive expense which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations	**-**	-	(7)
Income tax effect	**-**	-	2
Total other comprehensive expense which will not be reclassified subsequently to the income statement	**-**	-	(5)
Total other comprehensive expense, net of tax	**(13)**	(34)	(116)
Total comprehensive income	**209**	188	795
Total comprehensive income attributable to:			
Owners of the Banking Group	**209**	187	792
Non-controlling interests	**-**	1	3
	209	188	795

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

Consolidated balance sheet as at 31 December 2015

$ millions	Note	The Banking Group 31-Dec-15 Unaudited	 31-Dec-14 Unaudited	 30-Sep-15 Audited
Assets				
Cash and balances with central banks		**1,728**	1,998	857
Due from other financial institutions		**327**	476	18
Trading securities and other financial assets designated at fair value	4	**2,246**	2,370	2,085
Derivative financial instruments		**180**	18	618
Available-for-sale securities		**3,386**	3,091	3,421
Loans	5, 6	**70,122**	65,665	69,155
Due from related entities		**2,880**	1,959	2,587
Investment in associate		**-**	48	-
Property, plant and equipment		**156**	172	164
Deferred tax assets		**183**	164	183
Goodwill and other intangible assets		**600**	661	607
Other assets		**241**	239	230
Total assets		**82,049**	76,861	79,925
Liabilities				
Due to other financial institutions		**63**	157	490
Deposits and other borrowings	8	**55,530**	53,134	52,986
Other financial liabilities at fair value through income statement		**-**	71	-
Derivative financial instruments		**471**	375	203
Debt issues	9	**14,061**	12,714	14,685
Current tax liabilities		**32**	65	25
Provisions		**63**	61	83
Other liabilities		**562**	556	514
Total liabilities excluding related entities liabilities		**70,782**	67,133	68,986
Subordinated notes		**1,108**	-	1,143
Due to related entities		**3,559**	3,385	3,405
Total related entities liabilities		**4,667**	3,385	4,548
Total liabilities		**75,449**	70,518	73,534
Net assets		**6,600**	6,343	6,391
Equity				
Share capital		**3,750**	3,700	3,750
Retained profits		**2,922**	2,618	2,700
Available-for-sale securities reserve		**11**	35	16
Cash flow hedge reserve		**(83)**	(17)	(75)
Total equity attributable to owners of the Banking Group		**6,600**	6,336	6,391
Non-controlling interests		**-**	7	-
Total equity		**6,600**	6,343	6,391
Interest earning and discount bearing assets		**80,686**	75,479	77,961
Interest and discount bearing liabilities		**69,307**	65,123	68,088

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

Consolidated statement of changes in equity for the three months ended 31 December 2015

	The Banking Group						
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total Before Non-controlling Interests	Non-controlling Interests	Total Equity
As at 1 October 2014 (Audited)	4,150	2,397	35	17	6,599	6	6,605
Three months ended 31 December 2014 (Unaudited)							
Profit after income tax expense	-	221	-	-	221	1	222
Net losses from changes in fair value	-	-	-	(51)	(51)	-	(51)
Income tax effect	-	-	-	14	14	-	14
Transferred to the income statement	-	-	-	4	4	-	4
Income tax effect	-	-	-	(1)	(1)	-	(1)
Total comprehensive income for the three months ended 31 December 2014	-	221	-	(34)	187	1	188
Transaction with owners:							
Share capital repurchased	(450)	-	-	-	(450)	-	(450)
As at 31 December 2014 (Unaudited)	3,700	2,618	35	(17)	6,336	7	6,343
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
Three months ended 31 December 2015 (Unaudited)							
Profit after income tax expense	**-**	**222**	**-**	**-**	**222**	**-**	**222**
Net losses from changes in fair value	**-**	**-**	**(7)**	**(34)**	**(41)**	**-**	**(41)**
Income tax effect	**-**	**-**	**2**	**9**	**11**	**-**	**11**
Transferred to the income statement	**-**	**-**	**-**	**23**	**23**	**-**	**23**
Income tax effect	**-**	**-**	**-**	**(6)**	**(6)**	**-**	**(6)**
Total comprehensive income for the three months ended 31 December 2015	**-**	**222**	**(5)**	**(8)**	**209**	**-**	**209**
As at 31 December 2015 (Unaudited)	**3,750**	**2,922**	**11**	**(83)**	**6,600**	**-**	**6,600**

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

Consolidated statement of cash flows for the three months ended 31 December 2015

$ millions	The Banking Group Three Months Ended 31-Dec-15 Unaudited	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Cash flows from operating activities			
Interest income received	**1,070**	1,102	4,416
Interest expense paid	**(603)**	(703)	(2,488)
Non-interest income received	**84**	98	398
Operating expenses paid	**(217)**	(207)	(765)
Income tax paid	**(75)**	(73)	(325)
Cash flows from operating activities before changes in operating assets and liabilities	**259**	217	1,236
Net (increase)/decrease in:			
Due from other financial institutions	**(309)**	(119)	144
Trading securities and other financial assets designated at fair value	**(168)**	(1,154)	(871)
Loans	**(1,004)**	(1,076)	(4,538)
Due from related entities	**(515)**	(332)	(796)
Other assets	**-**	(1)	-
Net increase/(decrease) in:			
Due to other financial institutions	**(427)**	(44)	289
Deposits and other borrowings	**2,544**	2,527	2,375
Other financial liabilities at fair value through income statement	**-**	(19)	(90)
Other liabilities	**(8)**	(2)	(10)
Net movement in external and related entity derivative financial instruments	**93**	290	741
Net cash provided by/(used in) operating activities	**465**	287	(1,520)
Cash flows from investing activities			
Purchase of available-for-sale securities	**-**	(198)	(930)
Proceeds from maturities/sale of available-for-sale securities	**-**	30	506
Proceeds from disposal of a subsidiary	**-**	-	7
Cash receipts from associate	**-**	-	48
Purchase of capitalised computer software	**(8)**	(15)	(38)
Proceeds from disposal of software	**-**	-	2
Purchase of property, plant and equipment	**(2)**	(3)	(24)
Net cash used in investing activities	**(10)**	(186)	(429)
Cash flows from financing activities			
Issue of ordinary share capital	**-**	-	600
Share capital repurchased	**-**	(450)	(1,000)
Net movement in debt issues	**402**	449	651
Net movement in due to related entities	**14**	(201)	(255)
Settlement of promissory note	**-**	-	(48)
Proceeds from issuance of subordinated notes	**-**	-	1,172
Payment of dividends to ordinary shareholders	**-**	-	(600)
Payment of dividends to minority shareholders	**-**	-	(8)
Net cash provided by/(used in) financing activities	**416**	(202)	512
Net increase/(decrease) in cash and cash equivalents	**871**	(101)	(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	**1,728**	2,193	857
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	**243**	248	166
Cash and balances with central banks	**1,485**	1,750	691
Due from other financial institutions	**-**	195	-
Cash and cash equivalents at end of the period/year	**1,728**	2,193	857

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

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

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

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

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

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

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 19 February 2016. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

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

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2015.

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

Note 2 Non-interest income

	The Banking Group		
$ millions	**Three Months Ended 31-Dec-15 Unaudited**	Three Months Ended 31-Dec-14 Unaudited	Year Ended 30-Sep-15 Audited
Fees and commissions			
Transaction fees and commissions	**59**	71	262
Lending fees (loan and risk)	**15**	16	61
Management fees received from related entities	**2**	2	7
Other non-risk fee income	**11**	8	38
Total fees and commissions	**87**	97	368
Net ineffectiveness on qualifying hedges	**1**	(2)	(4)
Other non-interest income			
Dividend income	**-**	-	2
Gain on sale of available-for-sale securities	**-**	-	19
Gain on disposal of a subsidiary	**-**	-	4
Other	**1**	6	10
Total other non-interest income	**1**	6	35
Total non-interest income	**89**	101	399

Note 3 Impairment (recoveries)/charges on loans

$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
	The Banking Group				
Three months ended 31 December 2015 (Unaudited)					
Collectively assessed provisions	**(7)**	**1**	**(4)**	**-**	**(10)**
Individually assessed provisions	**(1)**	**-**	**1**	**-**	**-**
Bad debts written-off directly to the income statement	**1**	**9**	**(1)**	**-**	**9**
Total impairment (recoveries)/charges on loans	**(7)**	**10**	**(4)**	**-**	**(1)**
Three months ended 31 December 2014 (Unaudited)					
Collectively assessed provisions	1	(1)	(10)	-	(10)
Individually assessed provisions	4	1	16	-	21
Bad debts written-off/(recovered) directly to the income statement	1	9	(2)	-	8
Total impairment charges on loans	6	9	4	-	19
Year ended 30 September 2015 (Unaudited)					
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

	The Banking Group		
$ millions	**31-Dec-15 Unaudited**	31-Dec-14 Unaudited	30-Sep-15 Audited
Government and semi-government securities	**553**	1,061	944
Debt securities	**1,530**	1,309	1,141
Securities purchased under agreement to resell	**163**	-	-
Total trading securities and other financial assets designated at fair value	**2,246**	2,370	2,085

As at 31 December 2015, no trading securities and other financial assets designated at fair value were encumbered through repurchase agreements (31 December 2014: nil, 30 September 2015: nil).

Note 5 Loans

	The Banking Group		
$ millions	**31-Dec-15 Unaudited**	31-Dec-14 Unaudited	30-Sep-15 Audited
Overdrafts	**1,197**	1,072	1,249
Credit card outstandings	**1,581**	1,471	1,537
Money market loans	**1,291**	1,041	1,386
Term loans:			
Housing	**42,536**	40,315	42,152
Non-housing	**23,179**	21,670	22,475
Other	**746**	551	771
Total gross loans	**70,530**	66,120	69,570
Provisions for impairment charges on loans	**(408)**	(455)	(415)
Total net loans	**70,122**	65,665	69,155

As at 31 December 2015, $4,519 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 December 2014: $3,797 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 December 2015, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,957 million (31 December 2014: $3,205 million, 30 September 2015: $4,022 million).

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

$ millions	The Banking Group 31-Dec-15 (Unaudited) Residential Mortgages	Other Retail	Corporate	Other	Total
Neither past due nor impaired	**41,489**	**3,525**	**23,448**	**379**	**68,841**
Past due and not impaired assets:					
Less than 90 days past due	**962**	**172**	**158**	**2**	**1,294**
At least 90 days past due	**50**	**20**	**20**	**-**	**90**
Total past due and not impaired assets	**1,012**	**192**	**178**	**2**	**1,384**
Individually impaired assets	**35**	**3**	**267**	**-**	**305**
Total gross loans	**42,536**	**3,720**	**23,893**	**381**	**70,530**
Individually assessed provisions	**11**	**1**	**104**	**-**	**116**
Collectively assessed provisions	**49**	**97**	**179**	**-**	**325**
Total provisions for impairment charges on loans and credit commitments	**60**	**98**	**283**	**-**	**441**
Provision for credit commitments	**-**	**(4)**	**(29)**	**-**	**(33)**
Total provisions for impairment charges on loans	**60**	**94**	**254**	**-**	**408**
Total net loans	**42,476**	**3,626**	**23,639**	**381**	**70,122**

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-Dec-15 Unaudited	31-Dec-14 Unaudited	30-Sep-15 Audited
Cash	**327**	281	18
Securities pledged under repurchase agreements	**64**	263	4
Total amount pledged to secure liabilities (excluding CB Programme)	**391**	544	22

Note 8 Deposits and other borrowings

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

Note 9 Debt issues

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

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.

Note 11 Fair value of financial instruments

Fair Valuation Control Framework

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

The method of determining a fair value according to the Fair Valuation Control Framework differs depending on the information available.

Fair value hierarchy

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

- Level 1

  Financial instruments valued using recent unadjusted quoted prices in active markets for identical assets or liabilities. An active market is one in which prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

  Valuation of Level 1 instruments requires little or no management judgment.

- Level 2

  Valuation techniques utilising observable market prices applied to these assets or liabilities include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

  The financial instruments included in this category are mainly over-the-counter derivatives with observable market inputs and financial instruments with fair value derived from consensus pricing with sufficient contributors.

- Level 3

  Financial instruments valued using at least one input that could have a significant effect on the instrument's valuation which is not based on observable market data (unobservable input). Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions.

  These valuations are calculated using a high degree of management judgment.

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

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:

	The Banking Group		
$ millions	**31-Dec-15 Unaudited**	31-Dec-14 Unaudited	30-Sep-15 Audited
Available-for-sale securities			
Level 1	**1,602**	1,992	1,619
Level 2	**1,784**	1,057	1,802
Level 3[1]	**-**	42	-
Total available-for-sale securities	**3,386**	3,091	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 the income statement or the statement of comprehensive income of the Banking Group during the three months ended 31 December 2015 (31 December 2014: no material changes in fair value, 30 September 2015: no material changes in fair value).

There have been no significant transfers into/out of Level 1, 2 or 3 during the three months ended 31 December 2015 (31 December 2014: nil, 30 September 2015: nil).

Note 11 Fair value of financial instruments (continued)

Financial instruments not measured at fair value

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

	The Banking Group					
	31-Dec-15 Unaudited		31-Dec-14 Unaudited		30-Sep-15 Audited	
$ millions	**Total Carrying Amount**	**Estimated Fair Value**	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	**70,122**	**70,256**	65,665	65,564	69,155	69,335
Total	**70,122**	**70,256**	65,665	65,564	69,155	69,335
Financial liabilities						
Deposits and other borrowings	**54,123**	**54,206**	51,597	51,650	51,916	52,012
Debt issues	**11,638**	**11,656**	10,222	10,332	11,969	12,038
Due to related entities	**2,801**	**2,828**	2,857	2,923	2,846	2,874
Subordinated notes	**1,108**	**1,091**	-	-	1,143	1,143
Total	**69,670**	**69,781**	64,676	64,905	67,874	68,067

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

Note 12 Contingent liabilities, contingent assets and credit commitments

	The Banking Group		
$ millions	**31-Dec-15 Unaudited**	31-Dec-14 Unaudited	30-Sep-15 Audited
Commitments for capital expenditure			
Due within one year	**3**	3	2
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**221**	264	233
Motor vehicles	**4**	7	5
Total lease commitments	**225**	271	238
Lease commitments are due as follows:			
One year or less	**56**	62	58
Between one and five years	**141**	157	146
Over five years	**28**	52	34
Total lease commitments	**225**	271	238
Credit risk-related instruments			
Standby letters of credit and financial guarantees[1]	**103**	219	181
Trade letters of credit[2]	**126**	121	112
Non-financial guarantees[3]	**559**	625	561
Commitments to extend credit[4]	**23,369**	21,570	23,791
Other commitments[5]	**-**	110	40
Total credit risk-related instruments	**24,157**	22,645	24,685

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

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

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

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

5 Other commitments include underwriting facilities.

As at 31 December 2015, $64 million of available-for-sale securities were pledged as collateral for the Banking Group's liabilities under repurchase agreements (31 December 2014: $192 million, 30 September 2015: $4 million). Of this amount $64 million was pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank (31 December 2014: $121 million, 30 September 2015: $4 million) which is recorded within due to related entities and nil was pledged to third parties (31 December 2014: $71 million, 30 September 2015: nil) 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.

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

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

- Consumer Banking and Wealth provides financial services predominantly for individuals;
- Commercial, Corporate and Institutional Banking provides a broad range of financial services for commercial, corporate, agricultural, institutional, government and small to medium sized enterprise customers; and
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

- business units that do not meet the definition of operating segments under 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.

Note 13 Segment information (continued)

$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	The Banking Group Investments and Insurance	Reconciling Items	Total
Three months ended 31 December 2015 (Unaudited)					
Net interest income	**248**	**176**	**(1)**	**18**	**441**
Non-interest income	**44**	**35**	**32**	**(22)**	**89**
Net operating income	**292**	**211**	**31**	**(4)**	**530**
Net operating income from external customers	**396**	**324**	**32**	**(222)**	**530**
Net internal interest expense	**(104)**	**(113)**	**(1)**	**218**	**-**
Net operating income	**292**	**211**	**31**	**(4)**	**530**
Operating expenses	**(167)**	**(55)**	**(8)**	**7**	**(223)**
Impairment (charges)/recoveries on loans	**(10)**	**11**	**-**	**-**	**1**
Profit before income tax expense	**115**	**167**	**23**	**3**	**308**
Total gross loans	**38,785**	**31,726**	**-**	**19**	**70,530**
Total deposits	**31,661**	**22,462**	**-**	**1,407**	**55,530**
Three months ended 31 December 2014 (Unaudited)					
Net interest income	244	173	(2)	25	440
Non-interest income	52	40	29	(20)	101
Net operating income	296	213	27	5	541
Net operating income from external customers	386	312	29	(186)	541
Net internal interest expense	(90)	(99)	(2)	191	-
Net operating income	296	213	27	5	541
Operating expenses	(155)	(52)	(8)	1	(214)
Impairment charges on loans	(12)	(7)	-	-	(19)
Profit before income tax expense	129	154	19	6	308
Total gross loans	36,846	29,290	-	(16)	66,120
Total deposits	29,303	22,294	-	1,537	53,134
Year ended 30 September 2015 (Unaudited)					
Net interest income	984	695	(7)	118	1,790
Non-interest income	195	166	120	(82)	399
Net operating income	1,179	861	113	36	2,189
Net operating income from external customers	1,550	1,281	121	(763)	2,189
Net internal interest expense	(371)	(420)	(8)	799	-
Net operating income	1,179	861	113	36	2,189
Operating expenses	(626)	(203)	(30)	(29)	(888)
Impairment (charges)/recoveries on loans	(27)	(21)	-	1	(47)
Profit before income tax expense	526	637	83	8	1,254
Total gross loans	38,225	31,294	-	51	69,570
Total deposits	31,153	20,763	-	1,070	52,986

Note 14 Insurance business

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

Note 15 Capital adequacy

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

During the three months ended 31 December 2015, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

$ millions	The Banking Group 31-Dec-15 Unaudited
Tier One Capital	
Common Equity Tier One Capital[1]	**6,600**
Less deductions from Common Equity Tier One Capital	**(842)**
Total Common Equity Tier One Capital	**5,758**
Additional Tier One Capital	**-**
Less deductions from Additional Tier One Capital	**-**
Total Tier One Capital	**5,758**
Tier Two Capital	**1,108**
Less deductions from Tier Two Capital	**-**
Total Capital	**6,866**

[1] Common Equity Tier One Capital includes available-for-sale securities reserve and cash flow hedge reserve as disclosed in the balance sheet.

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 31-Dec-15 Unaudited
Capital adequacy ratios	
Common Equity Tier One Capital ratio	**11.6%**
Tier One Capital ratio	**11.6%**
Total Capital ratio	**13.9%**
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	**5.6%**
Buffer ratio requirement	**2.5%**

Note 15 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

$ millions	The Banking Group 31-Dec-15 Unaudited
Credit risk	
Exposures subject to the internal ratings based approach:	
Residential mortgages	**1,224**
Other retail (credit cards, personal loans, personal overdrafts)	**236**
Small business	**63**
Corporate/Business lending	**1,408**
Sovereign	**13**
Bank	**24**
Total exposures subject to the internal ratings based approach	**2,968**
Exposures not subject to the internal ratings based approach:	
Equity exposures	**-**
Specialised lending subject to the slotting approach	**493**
Exposures subject to the standardised approach	**86**
Total exposures not subject to the internal ratings based approach	**579**
Total credit risk (scaled)[1]	**3,547**
Operational risk	**360**
Market risk	**58**
Supervisory adjustment	**-**
Total	**3,965**

1 As disclosed in the Bank's conditions of registration included in the Disclosure Statement for the year ended 30 September 2015, 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 other material risks of the Banking Group that are additional to the standard credit, market and operational risks. These must be captured within the Banking Group's capital adequacy assessment process to ascertain whether additional capital is required to be held over and above the Banking Group's Pillar 1 capital requirement. Other material risks that are reviewed are: compliance and conduct risk, liquidity risk, reputational risk, environmental, social and governance risk, model risk, business / strategic risk, other assets risk and subsidiary risk.

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

$ millions	The Banking Group 31-Dec-15 Unaudited
Internal capital allocation	
Other material risk	**68**

The Banking Group regularly reviews the methodologies used to calculate its internal capital allocation to other material risk categories. Updated methodologies and assumptions have been applied in the Banking Group's assessment of capital allocated to other material risk and this is reflected at 31 December 2015.

Note 16 Risk management

16.1 Credit risk

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2015 (Unaudited)

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

	The Banking Group 31-Dec-15 (Unaudited)					
LVR range ($ millions)	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	**17,013**	**7,826**	**10,304**	**5,100**	**2,018**	**42,261**
Undrawn commitments and other off-balance sheet exposures	**5,242**	**1,405**	**1,322**	**442**	**162**	**8,573**
Value of exposures	**22,255**	**9,231**	**11,626**	**5,542**	**2,180**	**50,834**

Note 16 Risk Management (continued)

16.2 Liquidity risk

Liquid assets

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

	The Banking Group
$ millions	31-Dec-15 Unaudited
Cash and balances with central banks	1,728
Due from other financial institutions (included in due from related entities)	1,075
Supranational securities	1,167
NZ Government securities	2,708
NZ public securities	1,118
NZ corporate securities	1,582
Residential mortgage-backed securities	3,992
Total liquid assets	**13,370**

Note 17 Concentration of credit exposures to individual counterparties

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

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

- as at 31 December 2015 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2015 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the 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 December 2015:
  - 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 20%-24%; 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 December 2015:
  - 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 20%-24%; 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.

Note 18 Events after the reporting date

On 19 February 2016, the Board resolved that an unimputed dividend of $330 million on ordinary shares be paid by WNZL to its immediate parent company, Westpac New Zealand Group Limited.