Westpac New Zealand Limited
Disclosure Statement

For the three months ended 31 December 2016

Contents

General information and definitions

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

In this Disclosure Statement, reference is made to:

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

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

Limits on material financial support by the ultimate parent bank

In late 2014, the Australian Prudential Regulation Authority (‘**APRA**’) initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed Westpac Banking Corporation (the ‘**Ultimate Parent Bank**’) that its Extended Licensed Entity (‘**ELE**’) non-equity exposures to New Zealand banking subsidiaries is to transition to be below a limit of five percent of the Ultimate Parent Bank’s Level 1 Tier 1 capital.

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. Further, APRA imposed two conditions over the transition period – the percentage excess above the five percent limit as at 30 June 2015, is to reduce by at least one fifth by the end of each calendar year over the transition period, and the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until the Ultimate Parent Bank is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 31 December 2016, the ELE’s non-equity exposures to New Zealand banking subsidiaries affected by the limit were approximately 6.9% of Level 1 Tier 1 capital of the Ultimate Parent Bank. Non-equity exposures would need to reduce by approximately $0.8 billion from the 31 December 2016 position to comply with the 5% limit. The Ultimate Parent Bank expects to achieve compliance with the 5% limit within the transition period.

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

Directors

There have been no changes in the composition of the Board of Directors of the Bank since 30 September 2016.

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 the Directors signed this Disclosure Statement:

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

On 7 July 2016, S&P Global Ratings (‘**S&P**’) affirmed the Bank’s credit rating at AA-, however, it revised the Bank’s outlook to ‘negative’ from ‘stable’. The revision in outlook was as a result of S&P revising the outlook for the Australian sovereign rating to ‘negative’ from ‘stable’, which resulted in a revision of the outlook for the Ultimate Parent Bank’s to ‘negative’ from ‘stable’. On 18 August 2016, Moody’s Investors Service (‘**Moody’s**’) affirmed the Bank’s credit rating at Aa3, however, it revised the Bank’s outlook to ‘negative’ from ‘stable’. The revision in outlook was as a result of Moody’s revising the Australian Macro Profile to “Very Strong –” from “Very Strong”, which resulted in a revision of the outlook for the Ultimate Parent Bank to ‘negative’ from ‘stable’. There have been no changes to the Bank’s credit rating in the two years prior to 31 December 2016.

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

Guarantee arrangements

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

Conditions of registration

Non-compliance with conditions of registration

The Bank has fully complied with its capital requirements as set out in the Bank's conditions of registration except in the following respects in which it was non-compliant with the condition of registration 1B.

The Bank has identified that it has been operating versions of the following capital models without obtaining the Reserve Bank's prior approval as required under the revised version of the Reserve Bank's Capital Adequacy Framework (Internal Models Based Approach) (BS2B) that came into effect on 1 July 2014.

- Loss Given Default ('**LGD**') model affecting exposures to unsecured institutional customers
- LGD and Exposure at Default ('**EAD'**) models for credit card exposures
- Probability of Default ('**PD**') masterscale for wholesale customers
- PD model for wholesale property development and investment customers
- PD model for wholesale rural customers

The Bank has also identified that it made changes to its internal SME retail/corporate asset class definitions without obtaining the Reserve Bank's prior approval as required under the revised version of BS2B that came into effect on 1 July 2014.

The Bank estimates that the changes it implemented resulted in an increase of risk weighted assets in excess of $1bn and the Bank considers its internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk.

The Bank has also identified that its use of total committed exposure rather than EAD for calculating LVR does not, for less than one percent of its residential mortgages, meet the minimum LGD requirements of paragraph 4.150 of BS2B. However, the Bank's method of calculation results in a more conservative disclosure of the Banking Group's aggregate risk weighted assets.

On 10 February 2017 the Reserve Bank issued a notice under section 95 of the Reserve Bank Act, requiring the Bank to obtain an independent review of its compliance with advanced internal rating-based aspects of BS2B. Any consequences arising from that review will be appropriately disclosed in subsequent Disclosure Statements.

Changes to conditions of registration

The conditions of registration were amended on 28 September 2016 with effect from 1 October 2016 to revise the high LVR restrictions on residential mortgage lending. Property investment residential lending at LVRs of greater than 60% must not exceed 5% of the total qualifying new property investment residential mortgage loans arising during the relevant loan-to-valuation measurement period. Non property-investment residential mortgage lending with an LVR of more than 80% must not exceed 10% of the total qualifying new non property-investment residential mortgage loans arising during the relevant loan-to-valuation measurement period.

The Reserve Bank document 'Framework for Restrictions on High-LVR Residential Mortgage lending' (BS19) was also revised.

Other matters

Banking Group residential mortgages by LVR – note 16.1

The Banking Group has identified that the LVR in note 16.1 have not been calculated in compliance with the Order. They have been calculated by reference to the value of loans at origination rather than the current values as required by the Order. The result would be expected to be higher and hence more conservative than it would be using the method prescribed by the Order. The correct ratios will be included in the Disclosure Statement for the period ending 31 March 2017. Refer to Note 16.1 for more information.

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 the information that is required by the Order except as disclosed in Note 16.1 and under the heading *"Banking Group residential mortgages by LVR"* as noted on page 2; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the three months ended 31 December 2016:

(a) the Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act except as noted on page 2;

(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

Peter Francis King

Jonathan Parker Mason

Christopher John David Moller

Mary Patricia Leonie Quin

Dated this 27th day of February 2017

Income statement for the three months ended 31 December 2016

$ millions	Note	The Banking Group Three Months Ended 31-Dec-16 Unaudited	Three Months Ended 31-Dec-15 Unaudited	Year Ended 30-Sep-16 Audited
Interest income		**994**	1,067	4,113
Interest expense		**(556)**	(626)	(2,369)
Net interest income		**438**	441	1,744
Non-interest income	2	**92**	89	400
Net operating income		**530**	530	2,144
Operating expenses		**(236)**	(223)	(907)
Impairment recoveries/(charges) on loans	3	**37**	1	(59)
Profit before income tax expense		**331**	308	1,178
Income tax expense		**(92)**	(86)	(327)
Profit after income tax expense		**239**	222	851

The above income statement should be read in conjunction with the accompanying notes.

Statement of comprehensive income for the three months ended 31 December 2016

	The Banking Group		
$ millions	**Three Months Ended 31-Dec-16 Unaudited**	Three Months Ended 31-Dec-15 Unaudited	Year Ended 30-Sep-16 Audited
Profit after income tax expense	**239**	222	851
Other comprehensive income/(expense) which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	**4**	(7)	(21)
Income tax effect	**(1)**	2	6
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	**29**	(34)	(91)
Transferred to the income statement	**20**	23	90
Income tax effect	**(13)**	3	(1)
Total other comprehensive income/(expense) which may be reclassified subsequently to the income statement	**39**	(13)	(17)
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 income/(expense), net of tax	**39**	(13)	(22)
Total comprehensive income	**278**	209	829

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet as at 31 December 2016

		The Banking Group		
$ millions	Note	**31-Dec-16 Unaudited**	31-Dec-15 Unaudited	30-Sep-16 Audited
Assets				
Cash and balances with central banks		**1,791**	1,728	1,418
Due from other financial institutions		**860**	327	720
Trading securities and other financial assets designated at fair value	4	**5,062**	2,246	2,128
Derivative financial instruments		**60**	180	130
Available-for-sale securities		**3,721**	3,386	3,790
Loans	5, 6	**75,756**	70,122	75,172
Due from related entities		**1,956**	2,880	1,760
Investment in associate		**10**	-	9
Property and equipment		**153**	156	161
Deferred tax assets		**169**	183	191
Intangible assets		**587**	600	590
Other assets		**256**	241	238
Total assets		**90,381**	82,049	86,307
Liabilities				
Due to other financial institutions		**9**	63	15
Deposits and other borrowings	8	**59,995**	55,530	58,791
Other financial liabilities at fair value through income statement	7	**-**	-	400
Derivative financial instruments		**901**	471	884
Debt issues	9	**17,897**	14,061	14,727
Current tax liabilities		**66**	32	71
Provisions		**72**	63	90
Other liabilities		**541**	562	508
Total liabilities excluding related entities liabilities		**79,481**	70,782	75,486
Due to related entities		**2,982**	3,559	3,170
Subordinated notes		**1,080**	1,108	1,091
Total related entities liabilities		**4,062**	4,667	4,261
Total liabilities		**83,543**	75,449	79,747
Net assets		**6,838**	6,600	6,560
Equity				
Share capital		**3,750**	3,750	3,750
Retained profits		**3,125**	2,922	2,886
Available-for-sale securities reserve		**4**	11	1
Cash flow hedge reserve		**(41)**	(83)	(77)
Total equity		**6,838**	6,600	6,560
Interest earning and discount bearing assets		**88,956**	80,686	85,088
Interest and discount bearing liabilities		**76,263**	69,307	72,569

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity for the three months ended 31 December 2016

	The Banking Group				
$ millions	Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedge Reserve	Total
As at 1 October 2015 (Audited)	3,750	2,700	16	(75)	6,391
Three months ended 31 December 2015 (Unaudited)					
Profit after income tax expense	-	222	-	-	222
Net losses from changes in fair value	-	-	(7)	(34)	(41)
Income tax effect	-	-	2	9	11
Transferred to the income statement	-	-	-	23	23
Income tax effect	-	-	-	(6)	(6)
Total comprehensive income for the three months ended 31 December 2015	-	222	(5)	(8)	209
As at 31 December 2015 (Unaudited)	3,750	2,922	11	(83)	6,600
Year ended 30 September 2016 (Audited)					
Profit after income tax expense	-	851	-	-	851
Net losses from changes in fair value	-	-	(21)	(91)	(112)
Income tax effect	-	-	6	25	31
Transferred to the income statement	-	-	-	90	90
Income tax effect	-	-	-	(26)	(26)
Remeasurement of employee defined benefit obligations	-	(7)	-	-	(7)
Income tax effect	-	2	-	-	2
Total comprehensive income for the year ended 30 September 2016	-	846	(15)	(2)	829
Transactions with owners:					
Dividends paid on ordinary shares	-	(660)	-	-	(660)
As at 30 September 2016 (Audited)	3,750	2,886	1	(77)	6,560
Three months ended 31 December 2016 (Unaudited)					
Profit after income tax expense	**-**	**239**	**-**	**-**	**239**
Net gains from changes in fair value	**-**	**-**	**4**	**29**	**33**
Income tax effect	**-**	**-**	**(1)**	**(8)**	**(9)**
Transferred to the income statement	**-**	**-**	**-**	**20**	**20**
Income tax effect	**-**	**-**	**-**	**(5)**	**(5)**
Total comprehensive income for the three months ended 31 December 2016	**-**	**239**	**3**	**36**	**278**
As at 31 December 2016 (Unaudited)	**3,750**	**3,125**	**4**	**(41)**	**6,838**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows for the three months ended 31 December 2016

$ millions	The Banking Group Three Months Ended 31-Dec-16 Unaudited	Three Months Ended 31-Dec-15 Unaudited	Year Ended 30-Sep-16 Audited
Cash flows from operating activities			
Interest income received	**971**	1,070	4,136
Interest expense paid	**(539)**	(603)	(2,365)
Non-interest income received	**86**	84	380
Operating expenses paid	**(224)**	(217)	(797)
Income tax paid	**(90)**	(75)	(287)
Cash flows from operating activities before changes in operating assets and liabilities	**204**	259	1,067
Net (increase)/decrease in:			
Due from other financial institutions	**(140)**	(309)	(702)
Trading securities and other financial assets designated at fair value	**(2,933)**	(168)	(47)
Loans	**(623)**	(1,004)	(6,108)
Due from related entities	**(1)**	(515)	543
Net (decrease)/increase in:			
Due to other financial institutions	**(6)**	(427)	(475)
Deposits and other borrowings	**1,204**	2,544	5,805
Other financial liabilities at fair value through income statement	**(400)**	-	400
Other liabilities	**(3)**	(8)	(5)
Net movement in external and related entity derivative financial instruments	**(99)**	93	(82)
Net cash (used in)/provided by operating activities	**(2,797)**	465	396
Cash flows from investing activities			
Purchase of available-for-sale securities	**-**	-	(652)
Proceeds from maturities/sale of available-for-sale securities	**-**	-	300
Purchase of capitalised computer software	**(12)**	(8)	(46)
Purchase of property and equipment	**(4)**	(2)	(25)
Net cash used in investing activities	**(16)**	(10)	(423)
Cash flows from financing activities			
Proceeds from debt issues	**4,550**	1,371	7,840
Repayments of debt issues	**(1,395)**	(969)	(6,018)
Net movement in due to related entities	**31**	14	(574)
Dividends paid to ordinary shareholders	**-**	-	(660)
Net cash provided by financing activities	**3,186**	416	588
Net increase in cash and cash equivalents	**373**	871	561
Cash and cash equivalents at beginning of the period/year	**1,418**	857	857
Cash and cash equivalents at end of the period/year	**1,791**	1,728	1,418
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	**265**	243	204
Cash and balances with central banks	**1,526**	1,485	1,214
Cash and cash equivalents at end of the period/year	**1,791**	1,728	1,418

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1 Statement of accounting policies

Statutory base

In these condensed consolidated interim financial statements ('**financial statements**'), 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**').

These financial statements have been prepared and presented in accordance with the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (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 2016. 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 27 February 2017. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by applying fair value accounting to available-for-sale securities and financial assets and financial liabilities (including derivative instruments) measured at fair value through income statement or in other comprehensive income. The going concern concept and the accrual basis of accounting have been applied. All amounts are expressed in New Zealand dollars unless otherwise stated.

There were no amendments to the New Zealand Accounting Standards adopted during the reporting period that had a material impact on the Banking Group.

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 2016.

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-16 Unaudited**	Three Months Ended 31-Dec-15 Unaudited	Year Ended 30-Sep-16 Audited
Fees and commissions			
Transaction fees and commissions	**64**	59	254
Lending fees	**15**	15	60
Management fees received from related entities	**2**	2	12
Other non-risk fee income	**14**	11	43
Total fees and commissions	**95**	87	369
Net ineffectiveness on qualifying hedges	**(6)**	1	5
Other non-interest income			
Share of profit of associate accounted for using the equity method	**1**	-	11
Other	**2**	1	15
Total other non-interest income	**3**	1	26
Total non-interest income	**92**	89	400

Notes to the financial statements

Note 3 Impairment charges on loans

$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
	The Banking Group				
Three months ended 31 December 2016 (Unaudited)					
Collectively assessed provisions	**-**	**3**	**(8)**	**-**	**(5)**
Individually assessed provisions[1]	**(1)**	**1**	**(41)**	**-**	**(41)**
Bad debts written-off/(recovered) directly to the income statement	**-**	**10**	**(1)**	**-**	**9**
Total impairment (recoveries)/charges on loans	**(1)**	**14**	**(50)**	**-**	**(37)**
Three months ended 31 December 2015 (Unaudited)					
Collectively assessed provisions	(7)	1	(4)	-	(10)
Individually assessed provisions	(1)	-	1	-	-
Bad debts written-off/(recovered) directly to the income statement	1	9	(1)	-	9
Total impairment (recoveries)/charges on loans	(7)	10	(4)	-	(1)
Year ended 30 September 2016 (Audited)					
Collectively assessed provisions	(12)	(8)	28	-	8
Individually assessed provisions	-	2	4	-	6
Bad debts written-off directly to the income statement	1	43	1	-	45
Total impairment (recoveries)/charges on loans	(11)	37	33	-	59

[1] Corporate individually assessed provisions reduced during the reporting period as a result of recoveries of amounts previously impaired, which exceeded recovery expectations.

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

$ millions	31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Sep-16 Audited
	The Banking Group		
Government and semi-government securities	**3,260**	553	1,058
Other debt securities	**1,802**	1,530	1,070
Securities purchased under agreement to resell	**-**	163	-
Total trading securities and other financial assets designated at fair value	**5,062**	2,246	2,128

Note 5 Loans

$ millions	31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Sep-16 Audited
	The Banking Group		
Overdrafts	**1,244**	1,197	1,313
Credit card outstandings	**1,562**	1,581	1,503
Money market loans	**1,263**	1,291	1,362
Term loans:			
Housing	**45,586**	42,536	45,153
Non-housing	**25,680**	23,179	25,425
Other	**815**	746	851
Total gross loans	**76,150**	70,530	75,607
Provisions for impairment charges on loans	**(394)**	(408)	(435)
Total net loans	**75,756**	70,122	75,172

As at 31 December 2016, $7,154 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 2015: $4,519 million, 30 September 2016: $6,591 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 2016. As at 31 December 2016, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,365 million (31 December 2015: $3,957 million, 30 September 2016: $3,480 million).

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

	The Banking Group 31-Dec-16 Unaudited				
$ millions	Residential Mortgages	Other Retail	Corporate	Other	Total
Neither past due nor impaired	44,650	3,670	25,989	345	74,654
Past due but not impaired assets:					
Less than 90 days past due	875	181	190	-	1,246
At least 90 days past due	42	16	11	-	69
Total past due assets not impaired	917	197	201	-	1,315
Individually impaired assets	19	6	156	-	181
Total gross loans	45,586	3,873	26,346	345	76,150
Individually assessed provisions	5	4	54	-	63
Collectively assessed provisions	47	101	215	-	363
Total provisions for impairment charges on loans and credit commitments	52	105	269	-	426
Provision for credit commitments	-	(4)	(28)	-	(32)
Total provisions for impairment charges on loans	52	101	241	-	394
Total net loans	45,534	3,772	26,105	345	75,756

Note 7 Financial assets pledged as collateral

The Banking Group is required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting the CB Programme (refer to Note 5), the carrying value of these financial assets pledged as collateral is:

	The Banking Group		
$ millions	**31-Dec-16 Unaudited**	31-Dec-15 Unaudited	30-Sep-16 Audited
Cash	**860**	327	720
Securities pledged under repurchase agreements[1]			
Available-for-sale securities	**120**	64	483
Trading securities and other financial assets designated at fair value	**28**	-	-
Total amount pledged to secure liabilities (excluding CB Programme)	**1,008**	391	1,203

[1] As at 31 December 2016, $148 million of securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank ('**NZ Branch**') (31 December 2015: $64 million, 30 September 2016: $83 million) which is recorded within due to related entities and nil was pledged to third parties (31 December 2015: nil, 30 September 2016: $400 million) which is recorded as other financial liabilities at fair value through income statement.

Note 8 Deposits and other borrowings

	The Banking Group		
$ millions	**31-Dec-16 Unaudited**	31-Dec-15 Unaudited	30-Sep-16 Audited
Deposits and other borrowings at fair value			
Certificates of deposit	**1,268**	1,407	1,250
Total deposits and other borrowings at fair value	**1,268**	1,407	1,250
Deposits and other borrowings at amortised cost			
Non-interest bearing, repayable at call	**5,008**	4,300	4,621
Other interest bearing:			
At call	**24,737**	25,029	23,741
Term	**28,982**	24,794	29,179
Total deposits and other borrowings at amortised cost	**58,727**	54,123	57,541
Total deposits and other borrowings	**59,995**	55,530	58,791

Note 9 Debt issues

$ millions	The Banking Group 31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Sep-16 Audited
Short-term debt			
Commercial paper	**2,386**	2,423	2,410
Total short-term debt	**2,386**	2,423	2,410
Long-term debt			
Non-domestic medium-term notes	**8,934**	4,766	5,616
Covered Bonds	**3,365**	3,957	3,480
Domestic medium-term notes	**3,212**	2,915	3,221
Total long-term debt	**15,511**	11,638	12,317
Total debt issues	**17,897**	14,061	14,727
Debt issues at amortised cost	**15,511**	11,638	12,317
Debt issues at fair value	**2,386**	2,423	2,410
Total debt issues	**17,897**	14,061	14,727
Movement in debt issues			
Balance at beginning of the period/year	**14,727**	14,685	14,685
Issuance during the period/year	**4,550**	1,371	7,840
Repayments during the period/year	**(1,395)**	(969)	(6,018)
Effect of foreign exchange movements during the period/year	**101**	(1,010)	(1,824)
Effect of fair value movements and amortisation adjustments during the period/year	**(86)**	(16)	44
Balance at end of the period/year	**17,897**	14,061	14,727

Note 10 Related entities

Controlled entities of the Bank as at 30 September 2016 are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2016.

Note 11 Fair value of financial instruments

Fair valuation control framework

The Banking Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used 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 fair value differs depending on the information available.

Fair value hierarchy

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

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

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgment.

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data 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 historical transactions.

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

Note 11 Fair value of financial instruments (continued)

Financial instruments measured at fair value

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

	The Banking Group		
$ millions	31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Sep-16 Audited
Available-for-sale securities			
Level 1	**1,582**	1,602	1,608
Level 2	**2,139**	1,784	2,182
Total available-for-sale securities	**3,721**	3,386	3,790
Trading securities and other financial assets designated at fair value			
Level 1	**629**	-	478
Level 2	**4,433**	2,246	1,650
Total trading securities and other financial assets designated at fair value	**5,062**	2,246	2,128
Total	**8,783**	5,632	5,918

Analysis of movements between fair value hierarchy levels

During the period, there were no material transfers between levels of the fair value hierarchy (31 December 2015: nil, 30 September 2016: nil).

Financial instruments not measured at fair value

The following table summarises the estimated fair value and fair value hierarchy of the Banking Group's financial instruments not measured at fair value:

	The Banking Group					
	31-Dec-16 Unaudited		31-Dec-15 Unaudited		30-Sep-16 Audited	
$ millions	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
Financial assets						
Loans	**75,756**	**75,897**	70,122	70,256	75,172	75,417
Total	**75,756**	**75,897**	70,122	70,256	75,172	75,417
Financial liabilities						
Deposits and other borrowings	**58,727**	**58,777**	54,123	54,206	57,541	57,597
Debt issues	**15,511**	**15,662**	11,638	11,656	12,317	12,473
Due to related entities	**2,159**	**2,175**	2,801	2,828	2,191	2,210
Subordinated notes	**1,080**	**1,095**	1,108	1,091	1,091	1,111
Total	**77,477**	**77,709**	69,670	69,781	73,140	73,391

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

A description of how fair value is derived for financial instruments not measured at fair value is set out in Note 27 to the financial statements included in the Disclosure Statement for the year ended 30 September 2016.

Note 12 Contingent liabilities, contingent assets and credit commitments

$ millions	The Banking Group 31-Dec-16 Unaudited	31-Dec-15 Unaudited	30-Sep-16 Audited
Commitments for capital expenditure	**12**	3	3
Lease commitments[1]			
One year or less	**56**	56	57
Between one and five years	**134**	141	141
Over five years	**14**	28	16
Total lease commitments	**204**	225	214
Undrawn credit commitments			
Letters of credit and guarantees	**785**	788	818
Commitments to extend credit	**23,835**	23,369	23,932
Total undrawn credit commitments	**24,620**	24,157	24,750

1 The Banking Group mainly leases commercial and retail premises and related plant and equipment.

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

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

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

Note 13 Segment information

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

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

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

Comparative information for the three months ended 31 December 2015 and the year ended 30 September 2016 has been restated following customer segmentation changes to the Banking Group's operating segments in the current reporting period. Comparative information has been restated to ensure consistent presentation with the current reporting period. The revised presentation has no impact on total profit before income tax expense for the three months ended 31 December 2015 and the year ended 30 September 2016.

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, property finance, agricultural, institutional and government customers; and
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

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

Note 13 Segment information (continued)

$ millions	Consumer Banking and Wealth	Commercial, Corporate and Institutional	The Banking Group Investments and Insurance	Reconciling Items	Total
Three months ended 31 December 2016 (Unaudited)					
Net interest income	**264**	**172**	**-**	**2**	**438**
Non-interest income	**47**	**40**	**32**	**(27)**	**92**
Net operating income	**311**	**212**	**32**	**(25)**	**530**
Net operating income from external customers	**428**	**288**	**33**	**(219)**	**530**
Net internal interest expense	**(117)**	**(76)**	**(1)**	**194**	**-**
Net operating income	**311**	**212**	**32**	**(25)**	**530**
Operating expenses	**(173)**	**(56)**	**(6)**	**(1)**	**(236)**
Impairment (charges)/recoveries on loans	**(16)**	**53**	**-**	**-**	**37**
Profit before income tax expense	**122**	**209**	**26**	**(26)**	**331**
Total gross loans	**43,276**	**32,825**	**-**	**49**	**76,150**
Total deposits	**33,718**	**25,009**	**-**	**1,268**	**59,995**
Three months ended 31 December 2015 (Unaudited)					
Net interest income/(expense)	254	164	(1)	24	441
Non-interest income	44	34	32	(21)	89
Net operating income	298	198	31	3	530
Net operating income from external customers	412	298	32	(212)	530
Net internal interest expense	(114)	(100)	(1)	215	-
Net operating income	298	198	31	3	530
Operating expenses	(172)	(55)	(6)	10	(223)
Impairment (charges)/recoveries on loans	(10)	11	-	-	1
Profit before income tax expense	116	154	25	13	308
Total gross loans	40,209	30,310	-	11	70,530
Total deposits	32,177	21,946	-	1,407	55,530
Year ended 30 September 2016 (Unaudited)					
Net interest income/(expense)	1,033	681	(4)	34	1,744
Non-interest income	196	141	128	(65)	400
Net operating income	1,229	822	124	(31)	2,144
Net operating income from external customers	1,706	1,178	129	(869)	2,144
Net internal interest expense	(477)	(356)	(5)	838	-
Net operating income	1,229	822	124	(31)	2,144
Operating expenses	(673)	(219)	(26)	11	(907)
Impairment charges on loans	(33)	(14)	-	(12)	(59)
Profit before income tax expense	523	589	98	(32)	1,178
Total gross loans	42,695	32,851	-	61	75,607
Total deposits	33,219	24,322	-	1,250	58,791

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)' ('**BS2B**') issued by the Reserve Bank of New Zealand ('**Reserve Bank**'), except that the Banking Group's residential mortgages have been calculated using the total committed exposure, rather than exposure at default within the calculation of LVR. The Bank's method of calculation results in a more conservative disclosure of the Banking Group's risk weighted assets and its capital ratios, below, which is not considered to be material.

During the three months ended 31 December 2016, the Banking Group complied in full with all its externally imposed capital requirements.

The Banking Group's capital summary

$ millions	The Banking Group 31-Dec-16 Unaudited
Tier 1 capital	
Common Equity Tier 1 capital	**6,838**
Less deductions from Common Equity Tier 1 capital[1]	**(936)**
Total Common Equity Tier 1 capital[2]	**5,902**
Additional Tier 1 capital	**-**
Less deductions from Additional Tier 1 capital	**-**
Total Tier 1 capital	**5,902**
Tier 2 capital[3]	**1,081**
Less deductions from Tier 2 capital	**-**
Total capital	**6,983**

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

2 Common Equity Tier 1 Capital includes available-for-sale securities reserve and cash flow hedge reserve as disclosed on the balance sheet.

3 Excludes capitalised transaction costs.

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 BS2B.

%	The Banking Group 31-Dec-16 Unaudited
Capital adequacy ratios	
Common Equity Tier 1 capital ratio	**10.9**
Tier 1 capital ratio	**10.9**
Total capital ratio	**12.8**
Reserve Bank minimum ratios	
Common Equity Tier 1 capital ratio	**4.5**
Tier 1 capital ratio	**6.0**
Total capital ratio	**8.0**
Buffer ratios	
Buffer ratio	**4.8**
Buffer ratio requirement	**2.5**

Note 15 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

$ millions	The Banking Group 31-Dec-16 Unaudited
Credit risk	
Exposures subject to the internal ratings based approach:	
Residential mortgages	**1,327**
Other retail (credit cards, personal loans, personal overdrafts)	**224**
Small business	**59**
Corporate/Business lending	**1,641**
Sovereign	**12**
Bank	**32**
Total exposures subject to the internal ratings based approach	**3,295**
Exposures not subject to the internal ratings based approach:	
Equity exposures	**-**
Specialised lending subject to the slotting approach	**542**
Exposures subject to the standardised approach	**71**
Total exposures not subject to the internal ratings based approach	**613**
Total credit risk (scaled)[1]	**3,908**
Operational risk	**360**
Market risk	**80**
Supervisory adjustment	**-**
Total	**4,348**

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

Capital for other material risks

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

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

$ millions	The Banking Group 31-Dec-16 Unaudited
Internal capital allocation	
Other material risks	**85**

Note 16 Risk management

16.1 Credit risk

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

The Banking Group has identified that the LVRs in the table below have not been calculated in compliance with the Order. The Banking Group has been calculating the ratios by reference to the value of loans at origination rather than the current values as required by the Order. The result would be expected to be higher and hence more conservative than it would be using the method prescribed by the Order. Due to the timing of discovering the matter the Banking Group has not been able to correct the calculations in the table below. The Disclosure Statement for the six months ending 31 March 2017 will contain the correct ratios and the Banking Group will re-state the ratios as at 30 September 2016 at that time. The Reserve Bank is also considering the matter and will determine if further steps are necessary once the re-stated ratios have been published.

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

Note 16 Risk management (continued)

	The Banking Group 31-Dec-16 Unaudited					
LVR range ($ millions)	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	19,121	8,698	10,541	5,227	1,755	45,342
Undrawn commitments and other off-balance sheet exposures	5,590	1,483	1,354	449	145	9,021
Value of exposures	**24,711**	**10,181**	**11,895**	**5,676**	**1,900**	**54,363**

16.2 Liquidity risk

Liquid assets

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

$ millions	The Banking Group 31-Dec-16 Unaudited
Cash and balances with central banks	1,791
Due from other financial institutions (included in due from related entities)	660
Supranational securities	1,281
NZ Government securities	4,276
NZ public securities	1,398
NZ corporate securities	1,877
Residential mortgage-backed securities	3,992
Total liquid assets	**15,275**

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 2016 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2016 was nil.

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

	The Banking Group 31-Dec-16 Long-term credit rating	
% of Banking Group's equity	A- or A3 and above	BBB- or Baa3 to BBB+ or Baa1
As at 31 December 2016		
10-14	1	-
15-19	-	-
20 and above	1	-
Peak end-of-day aggregate credit exposure for the three months ended 31 December 2016		
10-14	1	1
15-19	-	-
20 and above	1	-

The peak end-of-day aggregate credit exposure to each individual counterparty (which are not members of a group of closely related counterparties) or a group of closely related counterparties has 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 17 February 2017, the Board resolved that an unimputed dividend of $330 million on the ordinary shares on issue be paid by WNZL to its immediate parent company, Westpac New Zealand Group Limited.