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# Westpac New Zealand Limited

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## Disclosure Statement

For the three months ended 31 December 2017



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## General information

Certain information contained in this Disclosure Statement is required by 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');
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the 'Banking Group');
- Westpac Banking Corporation (otherwise referred to as the 'Ultimate Parent Bank'); and
- Ultimate Parent Bank and its controlled entities (otherwise referred to as the 'Ultimate Parent Bank 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.

### 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 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 5% 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 5% 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 5% 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 5% limit. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 31 December 2017, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were below 5% of Level 1 Tier 1 capital of the Ultimate Parent Bank.

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 (the 'Board') since 30 September 2017.

### 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 ('Moody's')	A1	Stable
S&P Global Ratings	AA-	Negative

On 19 June 2017, Moody's downgraded the Bank's credit rating to A1. The downgrade follows Moody's revision of the Australian Macro Profile to "Strong +" from "Very Strong -", which resulted in a downgrade for the Ultimate Parent Bank to 'Aa3' from 'Aa2'. At the same time, Moody's revised the outlook to 'stable' from 'negative'.

### Guarantee arrangements

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

## Directors' statement

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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; and
- (b) is not false or misleading.

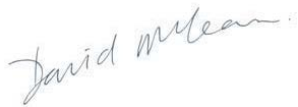
Each Director of the Bank believes, after due enquiry, that, over the three months ended 31 December 2017:

- (a) the Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 ('Reserve Bank Act') except as noted in Note 14 to the financial statements and pages 17 and 18;
- (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 Dawson



David McLean



Malcolm Bailey



Peter King



Jonathan Mason



Christopher Moller



Mary Quin

Dated this 15<sup>th</sup> day of February 2018

## Income statement for the three months ended 31 December 2017

\$ millions	Note	The Banking Group		
		Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Interest income		997	994	3,917
Interest expense		(541)	(556)	(2,176)
<b>Net interest income</b>		<b>456</b>	<b>438</b>	<b>1,741</b>
Non-interest income	2	105	92	405
<b>Net operating income before operating expenses and impairment charges</b>		<b>561</b>	<b>530</b>	<b>2,146</b>
Operating expenses		(238)	(236)	(954)
Impairment (charges)/benefits	3	(6)	37	76
<b>Profit before income tax</b>		<b>317</b>	<b>331</b>	<b>1,268</b>
Income tax expense		(89)	(92)	(359)
<b>Net profit for the period/year</b>		<b>228</b>	<b>239</b>	<b>909</b>

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

## Statement of comprehensive income for the three months ended 31 December 2017

\$ millions	The Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
<b>Net profit for the period/year</b>	<b>228</b>	<b>239</b>	<b>909</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Gains/(losses) on available-for-sale securities:			
Recognised in equity	6	4	11
Gains/(losses) on cash flow hedging instruments:			
Recognised in equity	(15)	29	(76)
Transferred to income statement	15	20	79
Income tax on items taken to or transferred from equity:			
Available-for-sale securities reserve	(2)	(1)	(3)
Cash flow hedging reserve	-	(13)	-
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of defined benefit obligation recognised in equity (net of tax)	-	-	10
<b>Other comprehensive income for the period/year (net of tax)</b>	<b>4</b>	<b>39</b>	<b>21</b>
<b>Total comprehensive income for the period/year</b>	<b>232</b>	<b>278</b>	<b>930</b>

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

**Balance sheet** as at 31 December 2017

\$ millions	Note	The Banking Group		
		31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
<b>Assets</b>				
Cash and balances with central banks		1,905	1,791	1,659
Receivables due from other financial institutions		218	860	407
Other assets		316	266	264
Trading securities		2,357	5,062	1,797
Derivative financial instruments		339	60	220
Available-for-sale securities		3,609	3,721	4,087
Loans	4	77,733	75,756	77,261
Due from related entities		2,007	1,956	2,017
Property and equipment		143	153	146
Deferred tax assets		165	169	162
Intangible assets		611	587	607
<b>Total assets</b>		<b>89,403</b>	<b>90,381</b>	<b>88,627</b>
<b>Liabilities</b>				
Payables due to other financial institutions		237	9	143
Other liabilities		542	541	502
Deposits and other borrowings	7	61,098	59,995	58,998
Other financial liabilities at fair value through income statement		-	-	19
Derivative financial instruments		321	901	484
Debt issues	8	15,455	17,897	16,729
Current tax liabilities		73	66	75
Provisions		69	72	85
<b>Total liabilities excluding related entities liabilities</b>		<b>77,795</b>	<b>79,481</b>	<b>77,035</b>
Due to related entities		1,898	2,982	2,126
Loan capital		2,628	1,080	2,616
<b>Total related entities liabilities</b>		<b>4,526</b>	<b>4,062</b>	<b>4,742</b>
<b>Total liabilities</b>		<b>82,321</b>	<b>83,543</b>	<b>81,777</b>
<b>Net assets</b>		<b>7,082</b>	<b>6,838</b>	<b>6,850</b>
<b>Shareholder's equity</b>				
Share capital		3,750	3,750	3,750
Retained profits		3,393	3,125	3,165
Reserves		(61)	(37)	(65)
<b>Total shareholder's equity</b>		<b>7,082</b>	<b>6,838</b>	<b>6,850</b>
Interest earning and discount bearing assets		87,804	88,956	87,294
Interest and discount bearing liabilities		75,210	76,263	74,996

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 2017

\$ millions	The Banking Group				
	Share Capital	Retained Profits	Reserves		Total
			Available-for-sale Securities Reserve	Cash Flow Hedging Reserve	
<b>As at 1 October 2016 (Audited)</b>	3,750	2,886	1	(77)	6,560
<b>Three months ended 31 December 2016 (Unaudited)</b>					
Net profit for the period	-	239	-	-	239
Net gains/(losses) 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)
<b>Total comprehensive income for the three months ended 31 December 2016</b>	-	239	3	36	278
<b>As at 31 December 2016 (Unaudited)</b>	3,750	3,125	4	(41)	6,838
<b>Year ended 30 September 2017 (Audited)</b>					
Net profit for the year	-	909	-	-	909
Net gains/(losses) from changes in fair value	-	-	11	(76)	(65)
Income tax effect	-	-	(3)	22	19
Transferred to the income statement	-	-	-	79	79
Income tax effect	-	-	-	(22)	(22)
Remeasurement of employee defined benefit obligations	-	14	-	-	14
Income tax effect	-	(4)	-	-	(4)
<b>Total comprehensive income for the year ended 30 September 2017</b>	-	919	8	3	930
Transactions with owners:					
Dividends paid on ordinary shares	-	(640)	-	-	(640)
<b>As at 30 September 2017 (Audited)</b>	3,750	3,165	9	(74)	6,850
<b>Three months ended 31 December 2017 (Unaudited)</b>					
Net profit for the period	-	228	-	-	228
Net gains/(losses) from changes in fair value	-	-	6	(15)	(9)
Income tax effect	-	-	(2)	4	2
Transferred to the income statement	-	-	-	15	15
Income tax effect	-	-	-	(4)	(4)
<b>Total comprehensive income for the three months ended 31 December 2017</b>	-	228	4	-	232
<b>As at 31 December 2017 (Unaudited)</b>	3,750	3,393	13	(74)	7,082

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 2017

\$ millions	The Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
<b>Cash flows from operating activities</b>			
Interest income received	982	971	3,902
Interest expense paid	(562)	(539)	(2,158)
Non-interest income received	80	86	422
Operating expenses paid	(242)	(224)	(844)
Income tax paid	(95)	(90)	(334)
Cash flows from operating activities before changes in operating assets and liabilities	163	204	988
Net (increase)/decrease in:			
Receivables due from other financial institutions	189	(140)	313
Other assets	(29)	-	(14)
Trading securities	(539)	(2,933)	312
Loans	(484)	(623)	(2,103)
Due from related entities	64	(1)	(281)
Net increase/(decrease) in:			
Payables due to other financial institutions	94	(6)	128
Other liabilities	28	(3)	9
Deposits and other borrowings	2,100	1,204	207
Other financial liabilities at fair value through income statement	(19)	(400)	(381)
Due to related entities <sup>1</sup>	60	114	(197)
Net movement in external and related entity derivative financial instruments	(62)	(99)	(627)
<b>Net cash provided by/(used in) operating activities</b>	<b>1,565</b>	<b>(2,683)</b>	<b>(1,646)</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale securities	-	-	(533)
Proceeds from available-for-sale securities	475	-	162
Purchase of capitalised computer software	(15)	(12)	(61)
Purchase of property and equipment	(9)	(4)	(31)
<b>Net cash provided by/(used in) investing activities</b>	<b>451</b>	<b>(16)</b>	<b>(463)</b>
<b>Cash flows from financing activities</b>			
Net movement in due to related entities <sup>1</sup>	(215)	(83)	(287)
Proceeds from debt issues	-	4,550	7,490
Repayments of debt issues	(1,555)	(1,395)	(5,698)
Issue of loan capital (net of transaction fees)	-	-	1,485
Dividends paid to ordinary shareholders	-	-	(640)
<b>Net cash provided by/(used in) financing activities</b>	<b>(1,770)</b>	<b>3,072</b>	<b>2,350</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>246</b>	<b>373</b>	<b>241</b>
Cash and cash equivalents at beginning of the period/year	1,659	1,418	1,418
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,905</b>	<b>1,791</b>	<b>1,659</b>
<b>Cash and cash equivalents at end of the period/year comprise:</b>			
Cash on hand	240	265	179
Balances with central banks	1,665	1,526	1,480
<b>Cash and cash equivalents at end of the period/year</b>	<b>1,905</b>	<b>1,791</b>	<b>1,659</b>

<sup>1</sup> Certain comparatives have been revised for consistency. The reclassification was made to better reflect the Banking Group's cash flows from operating and financing activities and has no effect on the balance sheet or income statement.

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



# Notes to the financial statements

## Note 1 Statement of accounting policies

These condensed consolidated interim financial statements ('financial statements') have been prepared and presented in accordance with the Order and Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit 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 2017. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

### 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 liabilities (including derivative instruments) measured at fair value through income statement or in other comprehensive income. The going concern concept has been applied.

All amounts in these financial statements have been rounded to the nearest million 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 2017.

The areas of judgment, estimates and assumptions in these financial statements, including the key sources of estimation uncertainty, are consistent with those in the financial statements for the year ended 30 September 2017.

Comparative information has been revised where appropriate to conform to changes in presentation in the current reporting period and to enhance comparability. 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

\$ millions	The Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Fees and commissions	98	95	400
Net ineffectiveness on qualifying hedges	5	(6)	(12)
Other non-interest income	2	3	17
<b>Total non-interest income</b>	<b>105</b>	<b>92</b>	<b>405</b>

## Note 3 Impairment charges/(benefits)

\$ millions	The Banking Group				Total
	Residential Mortgages	Other Retail	Corporate	Other	
<b>Three months ended 31 December 2017 (Unaudited)</b>					
Individually assessed provisions	1	-	-	-	1
Collectively assessed provisions	2	6	(4)	-	4
Bad debts written-off/(recovered) directly to the income statement	(1)	8	(6)	-	1
<b>Total impairment charges/(benefits)</b>	<b>2</b>	<b>14</b>	<b>(10)</b>	<b>-</b>	<b>6</b>
<b>Three months ended 31 December 2016 (Unaudited)</b>					
Individually assessed provisions	(1)	1	(41)	-	(41)
Collectively assessed provisions	-	3	(8)	-	(5)
Bad debts written-off/(recovered) directly to the income statement	-	10	(1)	-	9
<b>Total impairment charges/(benefits)</b>	<b>(1)</b>	<b>14</b>	<b>(50)</b>	<b>-</b>	<b>(37)</b>
<b>Year ended 30 September 2017 (Audited)</b>					
Individually assessed provisions	4	3	(56)	-	(49)
Collectively assessed provisions	5	(10)	(51)	-	(56)
Bad debts written-off/(recovered) directly to the income statement	-	31	(2)	-	29
<b>Total impairment charges/(benefits)</b>	<b>9</b>	<b>24</b>	<b>(109)</b>	<b>-</b>	<b>(76)</b>

# Notes to the financial statements

## Note 4 Loans

\$ millions	The Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Overdrafts	1,185	1,244	1,296
Credit card outstandings	1,595	1,562	1,518
Money market loans	1,219	1,263	1,250
Term loans:			
Housing	47,455	45,586	46,947
Non-housing	25,876	25,680	25,778
Other	762	815	822
<b>Total gross loans</b>	<b>78,092</b>	<b>76,150</b>	<b>77,611</b>
Provisions for impairment charges	(359)	(394)	(350)
<b>Total net loans</b>	<b>77,733</b>	<b>75,756</b>	<b>77,261</b>

As at 31 December 2017, \$7,539 million of housing loans, accrued interest (representing accrued and unpaid interest on the outstanding housing loans) and cash (representing collections of principal and interest from the underlying 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 2016: \$7,540 million, 30 September 2017: \$7,535 million). These pledged assets 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 2017. As at 31 December 2017, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was \$5,408 million (31 December 2016: \$3,373 million, 30 September 2017: \$5,246 million).

## Note 5 Asset quality

\$ millions	The Banking Group 31-Dec-17 (Unaudited)				Total
	Residential Mortgages	Other Retail	Corporate	Other	
Assets at least 90 days past due but not impaired	58	19	11	-	88
Individually impaired assets	32	6	140	-	178
Individually assessed provisions	8	4	36	-	48
Collectively assessed provisions	57	106	179	-	342

## Note 6 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 disclosed in Note 4, the carrying value of these financial assets pledged as collateral is:

\$ millions	The Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Cash	217	860	407
Securities pledged under repurchase agreements <sup>1</sup>			
Available-for-sale securities	140	120	41
Trading securities	-	28	-
<b>Total amount pledged to secure liabilities (excluding CB Programme)</b>	<b>357</b>	<b>1,008</b>	<b>448</b>

<sup>1</sup> As at 31 December 2017, \$140 million of securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank (31 December 2016: \$148 million, 30 September 2017: \$22 million) which is recorded within due to related entities and nil was pledged to third parties (31 December 2016: nil, 30 September 2017: \$19 million) which is recorded as other financial liabilities at fair value through income statement.

## Note 7 Deposits and other borrowings

\$ millions	The Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Certificates of deposit	1,020	1,268	593
Non-interest bearing, repayable at call	5,835	5,008	5,274
Other interest bearing:			
At call	23,640	24,737	23,117
Term	30,603	28,982	30,014
<b>Total deposits and other borrowings</b>	<b>61,098</b>	<b>59,995</b>	<b>58,998</b>

## Note 7 Deposits and other borrowings (continued)

Deposits and other borrowings have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 10 for further details.

## Note 8 Debt issues

\$ millions	The Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
<b>Short-term debt</b>			
Commercial paper	1,022	2,386	1,642
<b>Total short-term debt</b>	<b>1,022</b>	<b>2,386</b>	<b>1,642</b>
<b>Long-term debt</b>			
Non-domestic medium-term notes	5,876	8,934	6,628
Covered bonds	5,396	3,365	5,236
Domestic medium-term notes	3,161	3,212	3,223
<b>Total long-term debt</b>	<b>14,433</b>	<b>15,511</b>	<b>15,087</b>
<b>Total debt issues</b>	<b>15,455</b>	<b>17,897</b>	<b>16,729</b>

Debt issues have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 10 for further details.

## Note 9 Related entities

Controlled entities of the Bank as at 31 December 2017 are set out in Note 24 to the financial statements included in the Disclosure Statement for the year ended 30 September 2017.

In November 2017, the Banking Group repaid \$200 million of funding owing to the New Zealand Branch of the Ultimate Parent Bank.

## Note 10 Fair value of financial assets and financial liabilities

### 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.

A key element of the Framework is the Revaluation Committee, comprising senior valuation specialists from within the Ultimate Parent Bank Group. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

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 hierarchy described below.

### Valuation techniques

The Banking Group applies market accepted valuation techniques in determining the fair valuation of over the counter derivatives. This includes credit valuation adjustments and funding valuation adjustments, which incorporates credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

# Notes to the financial statements

## Note 10 Fair value of financial assets and financial liabilities (continued)

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below.

### Financial instruments measured at fair value

#### 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.

Instrument	Balance sheet category	Includes:	Valuation technique
Non-asset backed debt instruments	Trading securities Available-for-sale securities	New Zealand Government bonds	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.

#### 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 prices. Valuation techniques include:

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

Instrument	Balance sheet category	Includes:	Valuation technique
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps, forwards and options – derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers.
Foreign exchange products	Derivative financial instruments Due from related entities Due to related entities	FX swaps – derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Non-asset backed debt instruments	Trading securities Available-for-sale securities Due from related entities Other financial liabilities at fair value through income statement Due to related entities	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities and corporate bonds Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities with related and third parties	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices.
Deposits and other borrowings at fair value	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Commercial paper	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in the Bank's implied credit worthiness.

# Notes to the financial statements

## Note 10 Fair value of financial assets and financial liabilities (continued)

### 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.

The table below summarises the attribution of financial instruments measured at fair value on a recurring basis to the fair value hierarchy:

\$ millions	The Banking Group			Total
	31-Dec-17 (Unaudited)			
	Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>				
Trading securities	7	2,350	-	2,357
Derivative financial instruments	-	339	-	339
Available-for-sale securities	1,199	2,410	-	3,609
Due from related entities	-	613	-	613
<b>Total financial assets measured at fair value</b>	<b>1,206</b>	<b>5,712</b>	<b>-</b>	<b>6,918</b>
<b>Financial liabilities measured at fair value</b>				
Deposits and other borrowings at fair value	-	1,020	-	1,020
Derivative financial instruments	-	321	-	321
Debt issues at fair value	-	1,022	-	1,022
Due to related entities	-	399	-	399
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>2,762</b>	<b>-</b>	<b>2,762</b>

\$ millions	The Banking Group			Total
	31-Dec-16 (Unaudited)			
	Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>				
Trading securities	629	4,433	-	5,062
Derivative financial instruments	-	60	-	60
Available-for-sale securities	1,582	2,139	-	3,721
Due from related entities	-	482	-	482
<b>Total financial assets measured at fair value</b>	<b>2,211</b>	<b>7,114</b>	<b>-</b>	<b>9,325</b>
<b>Financial liabilities measured at fair value</b>				
Deposits and other borrowings at fair value	-	1,268	-	1,268
Derivative financial instruments	-	901	-	901
Debt issues at fair value	-	2,386	-	2,386
Due to related entities	-	823	-	823
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>5,378</b>	<b>-</b>	<b>5,378</b>

\$ millions	The Banking Group			Total
	30-Sep-17 (Audited)			
	Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>				
Trading securities	20	1,777	-	1,797
Derivative financial instruments	-	220	-	220
Available-for-sale securities	1,556	2,531	-	4,087
Due from related entities	-	587	-	587
<b>Total financial assets measured at fair value</b>	<b>1,576</b>	<b>5,115</b>	<b>-</b>	<b>6,691</b>
<b>Financial liabilities measured at fair value</b>				
Deposits and other borrowings at fair value	-	593	-	593
Other financial liabilities at fair value through income statement	-	19	-	19
Derivative financial instruments	-	484	-	484
Debt issues at fair value	-	1,642	-	1,642
Due to related entities	-	355	-	355
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>3,093</b>	<b>-</b>	<b>3,093</b>

### 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 2016: no material transfers between levels, 30 September 2017: no material transfers between levels).

# Notes to the financial statements

## Note 10 Fair value of financial assets and financial liabilities (continued)

### Financial instruments not measured at fair value

The following table summarises the estimated fair value of the Banking Group's financial instruments not measured at fair value where the carrying amount is not equivalent to fair value:

\$ millions	31-Dec-17 (Unaudited)		The Banking Group 31-Dec-16 (Unaudited)		30-Sep-17 (Audited)	
	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value	Total Carrying Amount	Estimated Fair Value
<b>Financial assets</b>						
Loans	77,733	77,769	75,756	75,897	77,261	77,292
<b>Total</b>	<b>77,733</b>	<b>77,769</b>	<b>75,756</b>	<b>75,897</b>	<b>77,261</b>	<b>77,292</b>
<b>Financial liabilities</b>						
Deposits and other borrowings	60,078	60,110	58,727	58,777	58,405	58,450
Debt issues	14,433	14,614	15,511	15,662	15,087	15,259
Due to related entities	1,499	1,511	2,159	2,175	1,771	1,786
Loan capital	2,628	2,700	1,080	1,095	2,616	2,688
<b>Total</b>	<b>78,638</b>	<b>78,935</b>	<b>77,477</b>	<b>77,709</b>	<b>77,879</b>	<b>78,183</b>

For cash and balances with central banks, receivables due from and payables due to other financial institutions and balances due from related entities which are carried at amortised cost and other types of short-term financial instruments recognised on 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 detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 26 to the financial statements included in the Disclosure Statement for the year ended 30 September 2017.

## Note 11 Credit related commitments, contingent assets and contingent liabilities

\$ millions	The Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Letters of credit and guarantees	799	785	772
Commitments to extend credit	25,255	23,989	25,081
Other	11	-	10
<b>Total undrawn credit commitments</b>	<b>26,065</b>	<b>24,774</b>	<b>25,863</b>

### Contingent assets

The credit commitments shown in the table above also constitute contingent assets. These commitments would be classified as loans on the balance sheet on the contingent event occurring.

### Contingent liabilities

The Banking Group has 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 12 Segment reporting

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 reporting 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 2016 has been restated following customer segmentation changes, as well as changes to the net interest income in the operating segments, as a result of the Ultimate Parent Bank updating its capital allocation framework. 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 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.

# Notes to the financial statements

## Note 12 Segment reporting (continued)

Reconciling items primarily represent:

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

\$ millions	The Banking Group			Reconciling Items	Total
	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance		
<b>Three months ended 31 December 2017 (Unaudited)</b>					
Net interest income	287	171	-	(2)	456
Non-interest income	50	40	34	(19)	105
<b>Net operating income before operating expenses and impairment charges</b>	<b>337</b>	<b>211</b>	<b>34</b>	<b>(21)</b>	<b>561</b>
Net operating income from external customers	446	286	35	(206)	561
Net internal interest expense	(109)	(75)	(1)	185	-
<b>Net operating income before operating expenses and impairment charges</b>	<b>337</b>	<b>211</b>	<b>34</b>	<b>(21)</b>	<b>561</b>
Operating expenses	(177)	(57)	(7)	3	(238)
Impairment (charges)/benefits	(19)	13	-	-	(6)
<b>Profit before income tax</b>	<b>141</b>	<b>167</b>	<b>27</b>	<b>(18)</b>	<b>317</b>
<b>Total gross loans</b>	<b>45,354</b>	<b>32,711</b>	<b>-</b>	<b>27</b>	<b>78,092</b>
<b>Total deposits and other borrowings</b>	<b>34,833</b>	<b>25,245</b>	<b>-</b>	<b>1,020</b>	<b>61,098</b>
<b>Three months ended 31 December 2016 (Unaudited)</b>					
Net interest income	263	172	-	3	438
Non-interest income	59	40	32	(39)	92
<b>Net operating income before operating expenses and impairment charges</b>	<b>322</b>	<b>212</b>	<b>32</b>	<b>(36)</b>	<b>530</b>
Net operating income from external customers	441	286	33	(230)	530
Net internal interest expense	(119)	(74)	(1)	194	-
<b>Net operating income before operating expenses and impairment charges</b>	<b>322</b>	<b>212</b>	<b>32</b>	<b>(36)</b>	<b>530</b>
Operating expenses	(189)	(56)	(6)	15	(236)
Impairment (charges)/benefits	(14)	53	-	(2)	37
<b>Profit before income tax</b>	<b>119</b>	<b>209</b>	<b>26</b>	<b>(23)</b>	<b>331</b>
<b>Total gross loans</b>	<b>43,276</b>	<b>32,825</b>	<b>-</b>	<b>49</b>	<b>76,150</b>
<b>Total deposits and other borrowings</b>	<b>33,718</b>	<b>25,009</b>	<b>-</b>	<b>1,268</b>	<b>59,995</b>
<b>Year ended 30 September 2017 (Audited)</b>					
Net interest income	1,063	681	1	(4)	1,741
Non-interest income	220	153	131	(99)	405
<b>Net operating income before operating expenses and impairment charges</b>	<b>1,283</b>	<b>834</b>	<b>132</b>	<b>(103)</b>	<b>2,146</b>
Net operating income from external customers	1,747	1,143	136	(880)	2,146
Net internal interest expense	(464)	(309)	(4)	777	-
<b>Net operating income before operating expenses and impairment charges</b>	<b>1,283</b>	<b>834</b>	<b>132</b>	<b>(103)</b>	<b>2,146</b>
Operating expenses	(709)	(221)	(29)	5	(954)
Impairment (charges)/benefits	(34)	97	-	13	76
<b>Profit before income tax</b>	<b>540</b>	<b>710</b>	<b>103</b>	<b>(85)</b>	<b>1,268</b>
<b>Total gross loans</b>	<b>44,707</b>	<b>32,870</b>	<b>-</b>	<b>34</b>	<b>77,611</b>
<b>Total deposits and other borrowings</b>	<b>34,044</b>	<b>24,361</b>	<b>-</b>	<b>593</b>	<b>58,998</b>

## Note 13 Insurance business

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

# Notes to the financial statements

## Note 14 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the Reserve Bank of New Zealand ('Reserve Bank') Capital Adequacy Framework (Internal Models Based Approach) ('BS2B'), except for the matters of non-compliance with condition of registration 1B disclosed on pages 17 and 18. The Bank considers its internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk and any effect of the non-compliance with its conditions of registration 1B on the information relating to capital adequacy is not considered by the Bank to be material.

### The Banking Group's capital summary (Unaudited)

\$ millions	The Banking Group 31-Dec-17
<b>Tier 1 capital</b>	
Common Equity Tier 1 capital	7,082
<i>Less deductions from Common Equity Tier 1 capital</i>	<i>(942)</i>
Total Common Equity Tier 1 capital <sup>1</sup>	6,140
Additional Tier 1 capital	1,500
<b>Total Tier 1 capital</b>	<b>7,640</b>
<b>Tier 2 capital</b>	<b>1,143</b>
<b>Total capital</b>	<b>8,783</b>

<sup>1</sup> Common Equity Tier 1 capital includes available-for-sale securities reserve and cash flow hedge reserve as disclosed on the balance sheet.

### Capital ratios (Unaudited)

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-17	Reserve Bank Minimum Ratios <sup>1</sup>
Common Equity Tier 1 capital ratio	11.5	6.5
Tier 1 capital ratio	14.3	8.0
Total capital ratio	16.5	10.0
Buffer ratio	5.0	2.5

<sup>1</sup> Changes to the Bank's conditions of registration, effective from 31 December 2017, have increased the Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio ('minimum capital ratios') by 2% compared to the minimum capital ratios as at 30 September 2017. The increased minimum capital ratios will remain in place until the Bank has satisfied the Reserve Bank that all existing issues in relation to the matters of non-compliance on pages 17 and 18 have been resolved.

### The Banking Group Pillar 1 total capital requirement (Unaudited)

\$ millions	The Banking Group 31-Dec-17
<b>Credit risk</b>	
Exposures subject to the internal ratings based approach:	
Residential mortgages	1,327
Other retail (credit cards, personal loans, personal overdrafts)	228
Small business	59
Corporate/Business lending	1,503
Sovereign	7
Bank	36
<b>Total exposures subject to the internal ratings based approach</b>	<b>3,160</b>
Exposures not subject to the internal ratings based approach:	
Specialised lending subject to the slotting approach	568
Exposures subject to the standardised approach	81
<b>Total exposures not subject to the internal ratings based approach</b>	<b>649</b>
<b>Total credit risk (scaled)<sup>1</sup></b>	<b>3,809</b>
<b>Operational risk</b>	<b>372</b>
<b>Market risk</b>	<b>81</b>
<b>Supervisory adjustment</b>	<b>-</b>
<b>Total</b>	<b>4,262</b>

<sup>1</sup> The value of the scalar used in determining the credit risk weighted exposure is 1.06 as required by the conditions of registration.

### Capital for other material risks (Unaudited)

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, deferred acquisition cost risk and subsidiary risk.

The Banking Group's internal capital allocation for 'other material risks' is \$251 million as at 31 December 2017.



**Note 15 Risk management****15.1 Credit risk****The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2017 (Unaudited)**

LVRs are calculated as the current exposure divided by the Banking Group's valuation of the residential security at origination.

For loans originated from 1 January 2008, the Banking Group utilises data from its loan system. For loans originated prior to 1 January 2008, the origination valuation is not separately recorded and is therefore not available for disclosure. For these loans, the Banking Group utilises its dynamic LVR process to estimate an origination valuation.

Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range (\$ millions)	The Banking Group 31-Dec-17					Total
	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	19,353	11,601	12,256	2,497	1,550	47,257
Undrawn commitments and other off-balance sheet exposures	4,909	1,248	981	107	189	7,434
<b>Value of exposures</b>	<b>24,262</b>	<b>12,849</b>	<b>13,237</b>	<b>2,604</b>	<b>1,739</b>	<b>54,691</b>

**15.2 Liquidity risk****Liquid assets (Unaudited)**

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-17
Cash and balances with central banks	1,905
Receivables due from other financial institutions (included in due from related entities)	837
Supranational securities	1,492
NZ Government securities	1,871
NZ public securities	1,730
NZ corporate securities	1,225
Residential mortgage-backed securities	3,950
<b>Total liquid assets</b>	<b>13,010</b>

**Note 16 Concentration of credit exposures to individual counterparties****Unaudited**

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 2017 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2017 was nil.

# Notes to the financial statements

## Note 16 Concentration of credit exposures to individual counterparties (continued)

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-17 Long-term credit rating A- or A3 and above
<b>% of Banking Group's equity</b>	
<b>As at 31 December 2017<sup>1</sup></b>	
10-14	-
15-19	-
20-25	1
<b>Peak end-of-day aggregate credit exposure for the three months ended 31 December 2017<sup>1</sup></b>	
10-14	-
15-19	-
20-25	1

<sup>1</sup> There were no individual non-bank counterparties with aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity and with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.

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 17 Subsequent events

On 17 January 2018, Westpac NZ Operations Limited (a wholly owned subsidiary of the Bank) entered into an agreement to sell its 25% shareholding in Paymark Limited ('Paymark') to Ingenico Group S.A. The carrying amount of the Banking Group's investment in Paymark is included in other assets on the balance sheet. The transaction is subject to regulatory consents.

On 15 February 2018, the Board resolved that an unimputed dividend of \$1,350m on ordinary shares will be paid by the Bank to its immediate parent company, Westpac New Zealand Group Limited ('WNZGL'), and that an issue of 1,350m ordinary shares in the Bank to WNZGL would be made on the same day of payment of the dividend at a price of \$1 per share and on the same terms of issue as all other ordinary shares on issue to WNZGL.

## Conditions of registration

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### Non-compliance with conditions of registration

The Bank underwent a review of compliance with certain aspects of condition of registration 1B in response to a notice issued by the Reserve Bank under section 95 of the Reserve Bank Act during the reporting period ('**Section 95 Review**'). Condition of registration 1B requires the Bank to comply with the Reserve Bank Capital Adequacy Framework (Internal Models Based Approach) ('**BS2B**').

The Section 95 Review considered the Bank's compliance with aspects of BS2B since accreditation in 2008. It found that the Bank had not complied with aspects of BS2B over that period, and in particular it used a number of capital models not approved by the RBNZ and failed to meet requirements around model governance, process and documentation.

The Bank accepts the findings of the Section 95 Review and is committed to addressing the issues raised. As disclosed in Note 14 to the financial statements, the Bank considers its current internal credit model methodologies result in the retention of an appropriate amount of capital to reflect its credit risk. Any effect of the non-compliance with condition of registration 1B on the information relating to capital adequacy disclosed in the financial statements is not considered by the Bank to be material.

During the reporting period, the Bank was non-compliant with condition of registration 1B in relation to the following matters:

- It has continued to operate versions of the following capital models which were not approved by the Reserve Bank, in some cases since December 2008:
  - Probability of Default ('**PD**') models for small business and agriculture.
  - Loss Given Default ('**LGD**') and Exposure at Default ('**EAD**') models for credit card exposures.
  - PD and LGD models for:
    - Banks;
    - Sovereigns;
    - Corporates; and
    - SME Corporates.
  - Risk Grade model utilised within expert judgement evaluation for wholesale property development and investment customers.
- In some instances, changes to expert judgement policies, compositional changes and an asset class segmentation rule within the Bank's loan book were not notified to the Reserve Bank as required under paragraph 1.3A(a) of BS2B.
- The Bank's Model Compendium required under 1.3B of BS2B is not accurate as it does not include all models, has unapproved models and has not been updated to include changes in models.
- It is not fully compliant with paragraph 4.246 of BS2B in that, with the exception of wholesale property development and investment customers, non-retail risk grade credit policy overrides are not captured and monitored.
- It is not fully compliant with paragraph 4.248 of BS2B in that not all historical origination data for non-retail customers is maintained in a format that allows easy accessibility to key data used to derive the original risk rating.
- It is not fully compliant with 4.256 of BS2B in that WNZL management accountabilities and authorities are not specified in the relevant framework policies published by the Ultimate Parent Bank.
- For less than one percent of its residential mortgages by loan value, its use of total committed exposure rather than EAD for calculating loan-to-value ratio ('**LVR**') for capital adequacy purposes does not meet the minimum LGD requirements of paragraph 4.150 of BS2B. Additionally, for less than 5% of accounts by number, the security value utilised within the calculation of LVR is an updated valuation and not the origination value as required by that paragraph.
- For credit risk capital purposes, off-balance sheet exposures include amounts that have been approved but not yet drawn by the customer. The Bank has identified that, for some loans to commercial and corporate customers, amounts approved but not yet drawn are not accurately included in its capital estimates. The aggregate amount is not assessed to be material.
- The Banking Group has some minor portfolios where risk weights for these exposures are assessed for capital adequacy under a standardised approach rather than under BS2B without the Reserve Bank's approval.
- For a small number of corporate customers, certain committed credit facilities have been incorrectly recorded as uncommitted. The error has been corrected and capital calculations adjusted accordingly. The aggregate amount is not assessed to be material.

## Conditions of registration (continued)

In addition to the non-compliance described above, the Section 95 Review noted that the Bank had failed to meet the Reserve Bank's requirements in relation to:

- model documentation and associated model documentation policies;
- internal processes for changes to the Bank's rating system;
- data maintenance; and
- policies or processes to support incorporating conservatism into models and estimates.

## Changes to conditions of registration

On 19 September 2017 the Reserve Bank advised the Bank of changes to its conditions of registration that will give effect to the Reserve Bank's revised Outsourcing Policy (BS11) ('**Revised Outsourcing Policy**'). Both the changes to the conditions of registration and the Revised Outsourcing Policy came into effect on 1 October 2017. The Revised Outsourcing Policy sets out requirements that banks need to meet when outsourcing particular functions and services, especially if the service provider is a related party of the bank. The Bank will have two years before it must fully comply with the requirement to maintain a compendium of outsourcing arrangements and five years to fully comply with other aspects of the Revised Outsourcing Policy.

The Revised Outsourcing Policy replaces an earlier policy introduced in 2006. The Bank was subject to the earlier 2006 version of the policy as at 30 September 2017 and will, therefore, continue to have to meet any relevant requirements of the 2006 version of the policy with respect to existing outsourcing arrangements for a transitional period of up to five years, as well as the requirements of the Revised Outsourcing Policy.

On 15 November 2017, the Reserve Bank also advised the Bank of changes to its conditions of registration that will give effect to the Reserve Bank's decision taken in response to a notice issued by the Reserve Bank under section 95 of the Reserve Bank Act. These changes came into effect on 31 December 2017 and require that:

- the Total capital ratio of the Banking Group is not less than 10 percent;
- the Tier 1 capital ratio of the Banking Group is not less than 8 percent; and
- the Common Equity Tier 1 capital ratio of the Banking Group is not less than 6.5 percent.

In addition, the Bank has undertaken to the Reserve Bank to maintain the Banking Group's Total capital ratio above 15.1%.

On 19 December 2017, the Reserve Bank further advised the Bank on changes to its conditions of registration that will give effect to the Reserve Bank's further changes to the LVR restrictions which ease those restrictions. These changes to the conditions of registration came into effect from 1 January 2018, being:

- (a) the limit of 5 per cent on new lending carried out in the relevant measurement period for residential property investment will apply where the LVR is greater than 65 per cent (currently, the required LVR is 60 per cent), and
- (b) there will be a limit of 15 percent (currently, the required limit is 10 per cent) on new non-residential property investment lending carried out in the measurement period where the LVR is greater than 80 per cent.

