
Westpac Banking Corporation – New Zealand Banking Group

Disclosure Statement

For the three months ended 31 December 2017



Contents

General information	1
Directors' and the Chief Executive Officer, NZ Branch's statement	3
Income statement	4
Statement of comprehensive income	4
Balance sheet	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8
Note 1 Statement of accounting policies	8
Note 2 Non-interest income	8
Note 3 Impairment charges/(benefits)	8
Note 4 Loans	8
Note 5 Asset quality	9
Note 6 Financial assets pledged as collateral	9
Note 7 Deposits and other borrowings	9
Note 8 Other financial liabilities at fair value through income statement	9
Note 9 Debt issues	10
Note 10 Related entities	10
Note 11 Fair value of financial assets and financial liabilities	10
Note 12 Credit related commitments, contingent assets and contingent liabilities	14
Note 13 Segment reporting	14
Note 14 Insurance business	15
Note 15 Risk management	16
15.1 Credit risk	16
15.2 Market risk	16
15.3 Liquidity risk	16
Note 16 Concentration of credit exposures to individual counterparties	16
Note 17 Overseas Bank and Overseas Banking Group capital adequacy	17
Note 18 Other information on the Overseas Banking Group	18
Note 19 Subsequent events	18
Conditions of registration	19

General information

Certain information contained in this Disclosure Statement is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 ('Order').

In this Disclosure Statement, reference is made to five main reporting groups:

- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide business of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac);
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank (carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations); and
- Westpac Banking Corporation – New Zealand Banking Group (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business.

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 Overseas 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 Overseas Bank's Level 1 Tier 1 capital.

The ELE consists of the Overseas 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 Overseas 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.

While the limit and associated conditions do not apply to the ELE's non-equity exposures to the NZ Branch (which is within the ELE), the limit and associated conditions do apply to the NZ Branch's non-equity exposures to the rest of the NZ Banking Group other than Westpac New Zealand Group Limited. 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 Overseas Bank.

APRA has also confirmed the terms on which the Overseas 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.

General matters

Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:

Lindsay Philip Maxsted, DipBus (Gordon), FCA, FAICD – Chairman
Brian Charles Hartzler, BA, CFA – Managing Director & Chief Executive Officer
Nerida Frances Caesar, BCom, MBA, GAICD
Ewen Graham Wolseley Crouch AM, BEc (Hons.), LLB, FAICD
Catriona Alison Deans, BA, MBA, GAICD
Craig William Dunn, BCom, FCA
Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD
Peter Ralph Marriott, BEc (Hons.), FCA

Changes to Directorate

Robert George Elstone ceased to be a director on 8 December 2017. On 7 February 2018, the Overseas Bank announced that Peter Stanley Nash has been appointed to its Board of Directors (the '**Board**') effective 7 March 2018. There have been no other changes in the composition of the Overseas Bank's Board since 30 September 2017.

Chief Executive Officer, NZ Branch

Karen Lee Silk, B.Com

Responsible person

All the Directors named above have authorised in writing David Alexander McLean, Chief Executive, Westpac New Zealand to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the Reserve Bank of New Zealand Act 1989 ('Reserve Bank Act').

Credit ratings

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

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

On 19 June 2017, Moody's downgraded the Overseas Bank's credit rating to Aa3. The downgrade followed Moody's revision of the Australian Macro Profile to "Strong +" from "Very Strong -". At the same time, Moody's revised the outlook to 'stable' from 'negative'.

Disclosure statements of the NZ Banking Group and the financial statements of the Overseas Bank and the Overseas Banking Group

Disclosure Statements of the NZ Banking Group for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2017 and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

No material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed as at the date this Disclosure Statement was signed.

Other material matters

Certain matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group have been disclosed on the New Zealand and/or Australian stock exchanges.

There are no other matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group which are not contained elsewhere in the Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Overseas Bank or any member of the NZ Banking Group is the issuer.

Directors' and the Chief Executive Officer, NZ Branch's statement

Each Director of the Overseas Bank and the Chief Executive Officer, NZ Branch, believe, 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 Overseas Bank and the Chief Executive Officer, NZ Branch, believe, after due enquiry, that, over the three months ended 31 December 2017:

- (a) the Overseas Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and
- (b) the NZ Branch and other members of the NZ Banking Group had systems in place to monitor and control adequately the material risks of relevant members of the NZ Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks and that those systems were being properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of Westpac New Zealand's banking group, as defined in Westpac New Zealand's Disclosure Statement for the three months ended 31 December 2017.

This Disclosure Statement has been signed on behalf of all of the Directors by David Alexander McLean, Chief Executive, Westpac New Zealand, and by Karen Lee Silk, as Chief Executive Officer, NZ Branch.



DA McLean



KL Silk

Dated this 20th day of February 2018

Income statement for the three months ended 31 December 2017

\$ millions	Note	NZ Banking Group		
		Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Interest income		1,016	1,009	3,981
Interest expense		(573)	(560)	(2,193)
Net interest income		443	449	1,788
Non-interest income	2	187	158	625
Net operating income before operating expenses and impairment charges		630	607	2,413
Operating expenses		(252)	(247)	(1,006)
Impairment (charges)/benefits	3	(6)	37	76
Profit before income tax		372	397	1,483
Income tax expense		(104)	(112)	(424)
Net profit for the period/year		268	285	1,059

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	NZ Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Net profit for the period/year	268	285	1,059
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Gains/(losses) on available-for-sale securities:			
Recognised in equity	6	4	11
Gains/(losses) on cash flow hedging instruments:			
Recognised in equity	(19)	51	(58)
Transferred to income statement	17	28	104
Income tax on items taken to or transferred from equity:			
Available-for-sale securities reserve	(2)	(1)	(3)
Cash flow hedging reserve	1	(22)	(13)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation recognised in equity (net of tax)	-	-	10
Other comprehensive income for the period/year (net of tax)	3	60	51
Total comprehensive income for the period/year	271	345	1,110

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

Balance sheet as at 31 December 2017

\$ millions	Note	NZ Banking Group		
		31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Assets				
Cash and balances with central banks		1,976	1,857	1,761
Receivables due from other financial institutions		354	927	471
Other assets		362	364	423
Trading securities and financial assets designated at fair value		3,457	5,648	3,949
Derivative financial instruments		3,333	3,755	3,420
Available-for-sale securities		3,609	3,721	4,087
Loans	4	78,168	76,166	77,681
Life insurance assets		317	268	304
Due from related entities		3,515	2,902	2,623
Property and equipment		143	153	146
Deferred tax assets		139	142	136
Intangible assets		668	648	665
Total assets		96,041	96,551	95,666
Liabilities				
Payables due to other financial institutions		1,124	526	1,043
Other liabilities		619	586	635
Deposits and other borrowings	7	61,098	59,995	58,998
Other financial liabilities at fair value through income statement	8	285	239	302
Derivative financial instruments		3,794	5,101	3,475
Due to related entities		2,561	3,585	3,646
Debt issues	9	15,455	17,897	16,729
Current tax liabilities		84	84	88
Provisions		76	76	97
Loan capital		2,843	1,080	2,822
Total liabilities		87,939	89,169	87,835
Net assets		8,102	7,382	7,831
Head office account				
Branch capital		1,300	1,300	1,300
Retained profits		767	660	740
Total head office account		2,067	1,960	2,040
NZ Banking Group equity				
Share capital		143	143	143
Retained profits		5,953	5,324	5,712
Reserves		(61)	(45)	(64)
Total NZ Banking Group equity		6,035	5,422	5,791
Total equity attributable to the owners of the NZ Banking Group		8,102	7,382	7,831
Interest earning and discount bearing assets		90,313	90,635	90,225
Interest and discount bearing liabilities		76,909	77,343	77,611

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	NZ Banking Group						Total Equity
	NZ Branch		Other Members of the NZ Banking Group				
	Head Office Account		Total equity attributable to owners of the NZ Banking Group				
	Branch Capital	Retained Profits	Ordinary Share Capital	Retained Profits	Available-for-sale Securities Reserve	Cash Flow Hedging Reserve	
As at 1 October 2016 (Audited)	1,300	613	143	5,086	1	(106)	7,037
Three months ended 31 December 2016 (Unaudited)							
Net profit for the period	-	47	-	238	-	-	285
Net gains/(losses) from changes in fair value	-	-	-	-	4	51	55
Income tax effect	-	-	-	-	(1)	(14)	(15)
Transferred to the income statement	-	-	-	-	-	28	28
Income tax effect	-	-	-	-	-	(8)	(8)
Total comprehensive income for the three months ended 31 December 2016	-	47	-	238	3	57	345
As at 31 December 2016 (Unaudited)	1,300	660	143	5,324	4	(49)	7,382
Year ended 30 September 2017 (Audited)							
Net profit for the year	-	127	-	932	-	-	1,059
Net gains/(losses) from changes in fair value	-	-	-	-	11	(58)	(47)
Income tax effect	-	-	-	-	(3)	16	13
Transferred to the income statement	-	-	-	-	-	104	104
Income tax effect	-	-	-	-	-	(29)	(29)
Remeasurement of employee defined benefit obligations	-	-	-	14	-	-	14
Income tax effect	-	-	-	(4)	-	-	(4)
Total comprehensive income for the year ended 30 September 2017	-	127	-	942	8	33	1,110
Transactions with owners:							
Dividends paid on ordinary shares	-	-	-	(316)	-	-	(316)
As at 30 September 2017 (Audited)	1,300	740	143	5,712	9	(73)	7,831
Three months ended 31 December 2017 (Unaudited)							
Net profit for the period	-	27	-	241	-	-	268
Net gains/(losses) from changes in fair value	-	-	-	-	6	(19)	(13)
Income tax effect	-	-	-	-	(2)	5	3
Transferred to income statement	-	-	-	-	-	17	17
Income tax effect	-	-	-	-	-	(4)	(4)
Total comprehensive income for the three months ended 31 December 2017	-	27	-	241	4	(1)	271
As at 31 December 2017 (Unaudited)	1,300	767	143	5,953	13	(74)	8,102

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	NZ Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Cash flows from operating activities			
Interest income received	1,001	990	3,968
Interest expense paid	(559)	(540)	(2,182)
Non-interest income received	193	193	641
Operating expenses paid	(260)	(245)	(887)
Income tax paid	(111)	(98)	(397)
Cash flows from operating activities before changes in operating assets and liabilities	264	300	1,143
Net (increase)/decrease in:			
Receivables due from other financial institutions	100	(92)	355
Other assets	(15)	(6)	(17)
Trading securities and financial assets designated at fair value	549	(1,698)	11
Loans	(497)	(602)	(2,090)
Due from related entities	(491)	(1,731)	(1,689)
Net increase/(decrease) in:			
Payables due to other financial institutions	81	(90)	427
Other liabilities	29	(2)	7
Deposits and other borrowings	2,100	1,204	207
Other financial liabilities at fair value through income statement	(17)	(337)	(274)
Due to related entities ¹	(874)	114	849
Net movement in external and related entity derivative financial instruments	302	206	(902)
Net cash provided by/(used in) operating activities	1,531	(2,734)	(1,973)
Cash flows from investing activities			
Purchase of available-for-sale securities	-	-	(533)
Proceeds from maturities/sale of available-for-sale securities	475	-	162
Net movement in life insurance assets	(13)	1	(35)
Purchase of capitalised computer software	(15)	(12)	(64)
Purchase of property and equipment	(9)	(4)	(31)
Net cash provided by/(used in) investing activities	438	(15)	(501)
Cash flows from financing activities			
Net movement in due to related entities ¹	(216)	(30)	(437)
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)	-	-	1,706
Dividends paid to ordinary shareholders	-	-	(316)
Net cash provided by/(used in) financing activities	(1,771)	3,125	2,745
Net increase/(decrease) in cash and cash equivalents	198	376	271
Cash and cash equivalents at beginning of the period/year	1,801	1,530	1,530
Cash and cash equivalents at end of the period/year	1,999	1,906	1,801
Cash and cash equivalents at end of the period/year comprise:			
Cash on hand	311	331	282
Balances with central banks	1,665	1,526	1,479
Receivables due from other financial institutions classified as cash and cash equivalents	23	49	40
Cash and cash equivalents at end of the period/year	1,999	1,906	1,801

¹ Certain comparatives have been revised for consistency. The reclassification was made to better reflect the NZ 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 in millions of 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	NZ 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	84	77	330
Wealth management and insurance income	38	22	130
Trading income	58	61	158
Net ineffectiveness on qualifying hedges	5	(5)	(10)
Other non-interest income	2	3	17
Total non-interest income	187	158	625

Note 3 Impairment charges/(benefits)

\$ millions	NZ Banking Group		
	Three Months Ended 31-Dec-17 Unaudited	Three Months Ended 31-Dec-16 Unaudited	Year Ended 30-Sep-17 Audited
Individually assessed provisions	1	(41)	(49)
Collectively assessed provisions	4	(5)	(56)
Bad debts written off directly to the income statement	1	9	29
Total impairment charges/(benefits)	6	(37)	(76)

Note 4 Loans

\$ millions	NZ 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	47,452	45,576	46,943
Non-housing	25,878	25,680	25,780
Other	1,198	1,235	1,244
Total gross loans	78,527	76,560	78,031
Provisions for impairment charges on loans	(359)	(394)	(350)
Total net loans	78,168	76,166	77,681

Notes to the financial statements

Note 4 Loans (continued)

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 NZ Banking Group to secure the obligations of Westpac Securities NZ Limited ('WSNZL') under Westpac New Zealand'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 NZ 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	NZ Banking Group	
	31-Dec-17	Unaudited
Assets at least 90 days past due but not impaired	88	
Individually impaired assets	178	
Individually assessed provisions	48	
Collectively assessed provisions	343	

Note 6 Financial assets pledged as collateral

The NZ 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	NZ Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Cash	330	878	430
Securities pledged under repurchase agreements			
Available-for-sale securities	-	-	19
Trading securities and financial assets designated at fair value	73	90	216
Total amount pledged to secure liabilities (excluding CB Programme)	403	968	665

Note 7 Deposits and other borrowings

\$ millions	NZ 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
Total deposits and other borrowings	61,098	59,995	58,998

The NZ Branch held no retail deposits from individuals as at 31 December 2017 (31 December 2016: nil, 30 September 2017: nil). 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 11 for further details.

Note 8 Other financial liabilities at fair value through income statement

\$ millions	NZ Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Securities sold short	212	150	67
Security repurchase agreements	73	89	235
Total other financial liabilities at fair value through income statement	285	239	302

Notes to the financial statements

Note 9 Debt issues

\$ millions	NZ Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Short-term debt			
Commercial paper	1,022	2,386	1,642
Total short-term debt	1,022	2,386	1,642
Long-term debt			
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
Total long-term debt	14,433	15,511	15,087
Total debt issues	15,455	17,897	16,729

Debt issues have been prepared under both the historical cost convention and by applying fair value accounting to certain products. Refer to Note 11 for further details.

Note 10 Related entities

Controlled entities of the NZ Banking Group as at 30 September 2017 are set out in Note 25 to the financial statements included in the Disclosure Statement for the year ended 30 September 2017.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 December 2017, amounted to \$6,399 million (31 December 2016: \$4,985 million, 30 September 2017: \$5,981 million).

In November 2017, the NZ Branch repaid \$200 million of funding owing to the Overseas Bank.

Note 11 Fair value of financial assets and financial liabilities

Fair valuation control framework

The NZ 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 Overseas Banking 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 NZ Banking Group categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The NZ 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.

Note 11 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
Exchange traded products	Derivative financial instruments Due from related entities Due to related entities	Exchange traded interest rate futures - derivative financial instruments	These instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
Foreign exchange products	Derivative financial instruments	FX spot contracts	
Non-asset backed debt instruments	Trading securities and financial assets designated at fair value Available-for-sale securities Other financial liabilities at fair value through income statement	New Zealand Government bonds	

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
Interest rate products	Derivative financial instruments Due from related entities Due to related entities	Interest rate swaps 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 and FX forward contracts - derivative financial instruments	Derived from market observable inputs or consensus pricing providers using industry standard models.
Asset backed debt instruments	Trading securities and financial assets designated at fair value Available-for-sale securities	Asset backed securities	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available these are classified as Level 3 instruments.

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities (continued)

Instrument	Balance sheet category	Includes:	Valuation
Non-asset backed debt instruments	Trading securities and financial assets designated at fair value Available-for-sale securities Other financial liabilities at fair value through income statement	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities, off-shore securities and corporate bonds Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities with 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 applicable credit rating of Westpac New Zealand.
Life insurance assets	Life insurance assets	Local authority securities, investment grade corporate bonds and units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.

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.

Instrument	Balance sheet category	Includes:	Valuation
Asset backed debt instruments	Trading securities and financial assets designated at fair value	Residential mortgage-backed securities ('RMBS') and certain other asset backed securities	RMBS are classified as Level 3 as consensus prices are not available as valuation inputs. Quotes by a third party broker or lead manager are used to derive the fair value for these instruments.
Interest rate derivatives	Derivative financial instruments	Non-vanilla interest rate (inflation indexed) derivatives and long-dated NZD caps	Valued using industry standard valuation models utilising observable market inputs which are determined separately for each parameter. Where unobservable, inputs will be set with reference to an observable proxy.

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

\$ millions	NZ Banking Group			Total
	Level 1	Level 2	Level 3 ¹	
Financial assets measured at fair value				
Trading securities and financial assets designated at fair value	29	3,373	55	3,457
Derivative financial instruments	-	3,333	-	3,333
Available-for-sale securities	1,199	2,410	-	3,609
Life insurance assets	-	317	-	317
Due from related entities	-	816	-	816
Total financial assets measured at fair value	1,228	10,249	55	11,532
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	1,020	-	1,020
Other financial liabilities at fair value through income statement	212	73	-	285
Derivative financial instruments	-	3,794	-	3,794
Due to related entities	-	575	-	575
Debt issues at fair value	-	1,022	-	1,022
Total financial liabilities measured at fair value	212	6,484	-	6,696

¹ Balances within this category of the fair value hierarchy are not considered material to the total trading securities and financial assets designated at fair value balance.

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities (continued)

\$ millions	NZ Banking Group			
	31-Dec-16 (Unaudited)			
	Level 1	Level 2	Level 3 ¹	Total
Financial assets measured at fair value				
Trading securities and financial assets designated at fair value	655	4,904	89	5,648
Derivative financial instruments	1	3,750	4	3,755
Available-for-sale securities	1,582	2,139	-	3,721
Life insurance assets	-	268	-	268
Due from related entities	-	647	-	647
Total financial assets measured at fair value	2,238	11,708	93	14,039
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	1,268	-	1,268
Other financial liabilities at fair value through income statement	150	89	-	239
Derivative financial instruments	-	5,101	-	5,101
Due to related entities	-	852	-	852
Debt issues at fair value	-	2,386	-	2,386
Total financial liabilities measured at fair value	150	9,696	-	9,846

¹ Balances within this category of the fair value hierarchy are not considered material to the total trading securities and financial assets designated at fair value and derivative financial instruments balances.

\$ millions	NZ Banking Group			
	30-Sep-17 (Audited)			
	Level 1	Level 2	Level 3 ¹	Total
Financial assets measured at fair value				
Trading securities and financial assets designated at fair value	91	3,800	58	3,949
Derivative financial instruments	1	3,419	-	3,420
Available-for-sale securities	1,556	2,531	-	4,087
Life insurance assets	-	304	-	304
Due from related entities	1	409	-	410
Total financial assets measured at fair value	1,649	10,463	58	12,170
Financial liabilities measured at fair value				
Deposits and other borrowings at fair value	-	593	-	593
Other financial liabilities at fair value through income statement	39	263	-	302
Derivative financial instruments	-	3,475	-	3,475
Due to related entities	1	574	-	575
Debt issues at fair value	-	1,642	-	1,642
Total financial liabilities measured at fair value	40	6,547	-	6,587

¹ Balances within this category of the fair value hierarchy are not considered material to the total trading securities and financial assets designated at fair value balance.

There were no material amounts of changes in fair value estimated using a valuation technique incorporating significant non-observable inputs that were recognised in the income statement or the statement of comprehensive income of the NZ Banking Group during the three months ended 31 December 2017 (31 December 2016: no material changes in fair value, 30 September 2017: no material changes in fair value).

Analysis of movements between Fair Value Hierarchy Levels

During the period, there were no material transfers between levels of the fair value hierarchy (31 December 2016: no material transfers between levels, 30 September 2017: no material transfers between levels).

Financial instruments not measured at fair value

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

\$ millions	NZ Banking Group					
	31-Dec-17 (Unaudited)		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
Financial assets						
Loans	78,168	78,209	76,166	76,311	77,681	77,717
Total	78,168	78,209	76,166	76,311	77,681	77,717
Financial liabilities						
Deposits and other borrowings	60,078	60,110	58,727	58,777	58,405	58,450
Due to related entities	1,986	1,998	2,733	2,742	3,071	3,084
Debt issues	14,433	14,614	15,511	15,662	15,087	15,259
Loan capital	2,843	2,961	1,080	1,095	2,822	2,921
Total	79,340	79,683	78,051	78,276	79,385	79,714

Notes to the financial statements

Note 11 Fair value of financial assets and financial liabilities (continued)

For cash and balances with central banks, due from and 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 repriced frequently, and are of a high credit rating.

A detailed description of how fair value is derived for financial instruments not measured at fair value is set out in Note 27 to the financial statements included in the Disclosure Statement for the year ended 30 September 2017.

Note 12 Credit related commitments, contingent assets and contingent liabilities

\$ millions	NZ Banking Group		
	31-Dec-17 Unaudited	31-Dec-16 Unaudited	30-Sep-17 Audited
Letters of credit and guarantees	1,081	1,258	1,041
Commitments to extend credit	25,296	24,064	25,111
Other	11	-	10
Total undrawn credit commitments	26,388	25,322	26,162

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 NZ Banking Group has contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ 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 NZ Banking Group.

Note 13 Segment reporting

The NZ 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 NZ 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 Overseas 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 NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ 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 the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand; and
- Investments and Insurance provides funds management and insurance services.

Reconciling items primarily represent:

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

Notes to the financial statements

Note 13 Segment reporting (continued)

\$ millions	NZ Banking Group				Total
	Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	
Three months ended 31 December 2017 (Unaudited)					
Net interest income	287	179	-	(23)	443
Non-interest income	50	77	34	26	187
Net operating income before operating expenses and impairment charges	337	256	34	3	630
Net operating income from external customers	446	335	35	(186)	630
Net internal interest expense	(109)	(79)	(1)	189	-
Net operating income before operating expenses and impairment charges	337	256	34	3	630
Operating expenses	(177)	(65)	(7)	(3)	(252)
Impairment (charges)/benefits	(19)	13	-	-	(6)
Profit before income tax	141	204	27	-	372
Total gross loans	45,354	33,150	-	23	78,527
Total deposits	34,833	25,245	-	1,020	61,098
Three months ended 31 December 2016 (Unaudited)					
Net interest income	263	181	-	5	449
Non-interest income	59	81	32	(14)	158
Net operating income before operating expenses and impairment charges	322	262	32	(9)	607
Net operating income from external customers	441	339	33	(206)	607
Net internal interest expense	(119)	(77)	(1)	197	-
Net operating income before operating expenses and impairment charges	322	262	32	(9)	607
Operating expenses	(189)	(63)	(6)	11	(247)
Impairment (charges)/benefits	(14)	53	-	(2)	37
Profit before income tax	119	252	26	-	397
Total gross loans	43,276	33,245	-	39	76,560
Total deposits	33,718	25,009	-	1,268	59,995
Year ended 30 September 2017 (Audited)					
Net interest income	1,063	715	1	9	1,788
Non-interest income	220	288	131	(14)	625
Net operating income before operating expenses and impairment charges	1,283	1,003	132	(5)	2,413
Net operating income from external customers	1,747	1,323	136	(793)	2,413
Net internal interest expense	(464)	(320)	(4)	788	-
Net operating income before operating expenses and impairment charges	1,283	1,003	132	(5)	2,413
Operating expenses	(709)	(250)	(29)	(18)	(1,006)
Impairment (charges)/benefits	(34)	97	-	13	76
Profit before income tax	540	850	103	(10)	1,483
Total gross loans	44,707	33,294	-	30	78,031
Total deposits	34,044	24,361	-	593	58,998

Note 14 Insurance business

The following table presents the aggregate amount of the NZ Banking Group's insurance business conducted through one of its controlled entities, Westpac Life-NZ- Limited, calculated in accordance with the Overseas Bank's (the registered bank) conditions of registration as at the reporting date:

\$ millions	31-Dec-17 Unaudited
Total assets of life insurance business	239
As a percentage of total consolidated assets of the NZ Banking Group	0.25%

Notes to the financial statements

Note 15 Risk management

15.1 Credit risk

The NZ 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 NZ Banking Group's valuation of the residential security at origination.

For loans originated from 1 January 2008, the NZ 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 NZ 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)	NZ Banking Group 31-Dec-17			Total
	Does not Exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	
On-balance sheet exposures	43,465	2,185	1,607	47,257
Undrawn commitments and other off-balance sheet exposures	9,384	195	307	9,886
Value of exposures	52,849	2,380	1,914	57,143

15.2 Market risk

Market risk notional capital charges (Unaudited)

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date.

\$ millions	NZ Banking Group 31-Dec-17	
	Implied Risk-weighted Exposure	Notional Capital Charge
End-of-period		
Interest rate risk	3,533	283
Foreign currency risk	11	1
Equity risk	-	-

15.3 Liquidity risk

Liquid assets (Unaudited)

The table below shows the NZ 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 NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

\$ millions	NZ Banking Group 31-Dec-17
Cash and balances with central banks	1,976
Receivables due from other financial institutions	23
Supranational securities	1,492
NZ Government securities	2,427
NZ public securities	1,730
NZ corporate securities	1,304
Residential mortgage-backed securities	3,950
Total liquid assets	12,902

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 NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas 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.

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 NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2017 was nil; and

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

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

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 Overseas Banking Group's equity as at 31 December 2017.

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 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 NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

Note 17 Overseas Bank and Overseas Banking Group capital adequacy

The table below represents the capital adequacy calculation for the Overseas Banking Group and Overseas Bank based on the Australian Prudential Regulation Authority's ('APRA') application of the Basel III capital adequacy framework.

%	31-Dec-17 Unaudited	31-Dec-16 Unaudited
Overseas Banking Group (excluding entities specifically excluded by APRA regulations) ^{1,2}		
Common equity Tier 1 capital ratio	10.1	9.3
Additional Tier 1 capital ratio	2.1	1.6
Tier 1 capital ratio	12.2	10.9
Tier 2 capital ratio	2.1	2.5
Total regulatory capital ratio	14.3	13.4
Overseas Bank (Extended Licensed Entity) ^{1,3}		
Common equity Tier 1 capital ratio	9.9	9.4
Additional Tier 1 capital ratio	2.2	1.8
Tier 1 capital ratio	12.1	11.2
Tier 2 capital ratio	2.3	2.8
Total regulatory capital ratio	14.4	14.0

¹ The capital ratios represent information mandated by APRA. The capital ratios of the Overseas Banking Group are publicly available in the Overseas Banking Group's Pillar 3 report. This information is made available to users via the Overseas Bank's website (www.westpac.com.au).

² Overseas Banking Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Overseas Bank and its subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy (Level 2). The head of the Level 2 group is the Overseas Bank.

³ Overseas Bank (Extended Licensed Entity) comprises the Overseas Bank and its subsidiary entities that have been approved by APRA as being part of a single Extended Licensed Entity for the purpose of measuring capital adequacy (Level 1).

Under APRA's Prudential Standards, Australian authorised deposit taking institutions ('ADI'), including the Overseas Banking Group are required to maintain minimum ratios of capital to risk weighted assets ('RWA'), as determined by APRA. For the calculation of RWAs, the Overseas Banking Group is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime. The Overseas Banking Group uses the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital. APRA's prudential standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision ('BCBS'), except where APRA has exercised certain discretions.

The Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly basis. This information is made available to users via the Overseas Banking Group's website (www.westpac.com.au).

The Overseas Banking Group (excluding entities specifically excluded by APRA regulations), and the Overseas Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 December 2017.

Notes to the financial statements

Note 18 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2017.

Profitability	30-Sep-17
Net profit after tax for the year ended 30 September 2017 (A\$ millions)	7,997
Net profit after tax for the year ended 30 September 2017 as a percentage of average total assets	0.9%

Total assets and equity	30-Sep-17
Total assets (A\$ millions)	851,875
Percentage change in total assets over the year ended 30 September 2017	1.5%
Total shareholder's equity (A\$ millions)	61,342

Asset quality	30-Sep-17
Total individually impaired assets ^{1, 2} (A\$ millions)	1,542
Total individually impaired assets as a percentage of total assets	0.2%
Total individual credit impairment allowance ³ (A\$ millions)	714
Total individual credit impairment allowance as a percentage of total individually impaired assets	46.3%
Total collective credit impairment allowance ³ (A\$ millions)	2,639

¹ Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense. Total individually impaired assets includes A\$686 million of assets which are determined to be impaired, but which are not individually significant, and therefore have been grouped into pools of assets for the purpose of collectively calculating an impairment provision.

² Non-financial assets have not been acquired through the enforcement of security.

³ Total individual credit impairment allowance and total collective credit impairment allowance both include A\$234 million of credit impairment allowance that has been calculated collectively on groups of assets which have been determined to be impaired, but which are not individually significant.

Note 19 Subsequent events

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

Conditions of registration

Westpac New Zealand conditions of registration

Westpac New Zealand has disclosed matters of non-compliance with its conditions of registration in Westpac New Zealand's Disclosure Statement for the three months ended 31 December 2017.

These matters have no impact on the compliance by the Overseas Bank with its conditions of registration.

Changes to conditions of registration

On 19 December 2017, the Reserve Bank further advised the Overseas 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.

