Westpac New Zealand Limited
Disclosure Statement

For the year ended 30 September 2016

Index

General information and definitions

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

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2016 are set out in Note 25.

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

General matters

Registered Bank

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (Company Number 1763882) on 14 February 2006. The head office of the Bank is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the Bank is Westpac on Takutai Square, 53 Galway Street, Auckland 1010, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited ('**WNZGL**'), a New Zealand company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited ('**WOHL**'), an Australian company. WOHL is, in turn, a wholly-owned subsidiary of Westpac Banking Corporation, an Australian company ('**Ultimate Parent Bank**'). The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its address for service of process is Level 20, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

At 30 September 2016, WNZGL has a direct qualifying interest in 100% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the voting securities of the Bank.

WNZGL has the ability to directly appoint up to 100% of the Board of Directors of the Bank (the '**Board**') and, as indirect holding companies of the Bank, both the Ultimate Parent Bank and WOHL have the ability to indirectly appoint up to 100% of the Board.

In addition, the Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

No director may be appointed unless the Reserve Bank of New Zealand ('**Reserve Bank**') has advised it has no objection to that appointment (refer to the Bank's conditions of registration on page 5 of this Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated through a branch in New Zealand. Effective 1 November 2006, the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank ('**NZ Branch**') (carrying on financial markets operations, and institutional banking activities until 1 November 2011) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank (for further details refer to Note 2 to the financial statements included in the Disclosure Statement for the year ended 30 September 2013).

Limits on material financial support by the Ultimate Parent Bank

The Ultimate Parent Bank is an authorised deposit-taking institution ('**ADI**') under the Banking Act 1959 of Australia ('**Australian Banking Act'**) and, as such, is subject to prudential regulation and supervision by the Australian Prudential Regulation Authority ('**APRA**'). APRA has the power to prescribe prudential requirements which may affect the ability of the Ultimate Parent Bank to provide material financial support to the Bank. Pursuant to current APRA requirements, and unless APRA provides otherwise, the Ultimate Parent Bank must comply with, among other prudential requirements, APRA's Prudential Standard APS 222 Associations with Related Entities ('**APS 222**'). APS 222 includes the following prudential requirements:

- the Ultimate Parent Bank's exposure to the Bank (being a related ADI as defined in APS 222) must not exceed 50% of the Ultimate Parent Bank's Level 1 capital base (as defined in APS 222);
- the Ultimate Parent Bank must not hold unlimited exposures to the Bank (such as a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- when determining limits on acceptable levels of exposure to the Bank, the Board of Directors of the Ultimate Parent Bank must have regard to:
  - the level of exposures that would be approved to third parties of broadly equivalent credit status; and
  - the impact on the Ultimate Parent Bank's stand-alone capital and liquidity positions, and its ability to continue operating, in the event of a failure by the Bank or any other related entity to which it is exposed.

In January 2013, a new provision in APS 222 took effect which allows APRA to set specific limits on the Ultimate Parent Bank's exposures to related entities, which include the Bank.

General matters (continued)

The Ultimate Parent Bank complies with the requirements set by APRA in respect of the extent of financial support that is provided to the Bank.

Section 13A(3) of the Australian Banking Act provides that, in the event that the Ultimate Parent Bank becomes unable to meet its obligations or suspends payment, the assets of the Ultimate Parent Bank in Australia are to be available to satisfy the liabilities of the Ultimate Parent Bank in the following order:

- first, certain obligations of the Ultimate Parent Bank to APRA (if any) arising under Division 2AA of Part II of the Australian Banking Act in respect of amounts payable by APRA to holders of 'protected accounts' (as defined in the Australian Banking Act) as part of the Financial Claims Scheme ('**FCS**') for the Australian Government guarantee of 'protected accounts' (including most deposits) up to A$250,000 in the winding-up of the Ultimate Parent Bank;
- second, APRA's costs (if any) in exercising its powers and performing its functions relating to the Ultimate Parent Bank in connection with the FCS;
- third, the Ultimate Parent Bank's liabilities (if any) in Australia in relation to 'protected accounts' that account-holders keep with the Ultimate Parent Bank;
- fourth, the Ultimate Parent Bank's debts (if any) to the Reserve Bank of Australia;
- fifth, the Ultimate Parent Bank's liabilities (if any) under an 'industry support contract' that is certified by APRA in accordance with the Australian Banking Act; and
- sixth, the Ultimate Parent Bank's other liabilities (if any) in the order of their priority apart from the above.

Under section 16 of the Australian Banking Act, on the winding-up of an ADI, APRA's cost of being in control of an ADI's business, or having an administrator in control of an ADI's business, is a debt due to APRA. Debts due to APRA shall have, subject to section 13A(3) of the Australian Banking Act, priority over all other unsecured debts of that ADI.

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

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

APRA has allowed a period of five years commencing on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. Further, APRA imposed two conditions over the transition period – the percentage excess above the five percent limit as at 30 June 2015, is to reduce by at least one fifth by the end of each calendar year over the transition period, and the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until the Ultimate Parent Bank is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 30 September 2016, the ELE's non-equity exposures to New Zealand banking subsidiaries affected by the limit were approximately 6.4% of Level 1 Tier 1 capital of the Ultimate Parent Bank. Non–equity exposures would need to reduce by approximately $0.6billion from the 30 September 2016 position to comply with the 5% limit. The Ultimate Parent Bank expects to achieve compliance with the 5% limit within the transition period.

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

Directorate

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

Name: Janice Amelia Dawson, B.Com, FCA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Deputy Chair of Air New Zealand Limited. Director of each of AIG Insurance New Zealand Limited, Beca Group Limited, Meridian Energy Limited, Erua Limited, Fulbright New Zealand and Jan Dawson Limited. Member of each of the Capital Investment Committee of the National Health Board, the Council of the University of Auckland, the Voyager Maritime Museum and Vice-President and Director of World Sailing.
Name: David Alexander McLean, LL.B (Hons.) **Non-executive:** No **Country of Residence:** New Zealand **Primary Occupation:** Chief Executive, Westpac New Zealand Limited **Secondary Occupations:** None **Board Audit Committee Member:** No **Independent Director:** No	**External Directorships:** Member of Mastercard Asia/Pacific Advisory Board.

General matters (continued)

Name: Malcolm Guy Bailey, B.Ag.Econ. **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Chairman of each of the Dairy Companies Association of NZ and Red Meat Profit Partnership General Partner Limited. Director of Fonterra Co-operative Group Limited, Fonterra Farmer Custodian Limited and RMI NZ Limited. Board Member of the NZ US Council. Member of the International Food and Agriculture Trade Policy Council. Director of each of Bailey Agriculture Limited, Bailey Family Properties Limited, BBD Industrial Properties Limited, Central Economic Development Agency Limited, Embryo Technologies Limited, Etech NZ Limited, Hopkins Farming Group Limited and Gleneig Holdings Limited.
Name: Peter Francis King **Non-executive:** Yes **Country of Residence:** Australia **Primary Occupation:** Chief Financial Officer, Westpac Banking Corporation **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** No	**External Directorships:** None
Name: Jonathan Parker Mason, MBA, MA, BA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes, Chair **Independent Director:** Yes	**External Directorships:** Director of each of Air New Zealand Limited, Advanced Metering Assets Limited, Advanced Metering Service Limited, Arc Innovations Limited, Allagash Limited, Compac Holdings Limited, New Zealand Assets Management Limited, NGC Holdings Limited, On Gas Limited, Vector Advanced Metering Assets (Australia) Limited, Vector Communications Limited, Vector Contracting Services Limited, Vector Gas Limited, Vector Gas Trading Limited, Vector Limited, Vector Metering Data Services Limited, Zespri Group Limited, Zespri International Limited. Board Member of the American Chamber of Commerce NZ and Advisory Board Member University of Auckland Business School.
Name: Christopher John David Moller, BCA, Dip Accounting, FCA **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** Chairman of each of New Zealand Transport Agency, Meridian Energy Limited and SKYCITY Entertainment Group Limited. Director of Urenui Consultants Limited.
Name: Mary Patricia Leonie Quin **Non-executive:** Yes **Country of Residence:** New Zealand **Primary Occupation:** Director **Secondary Occupations:** None **Board Audit Committee Member:** Yes **Independent Director:** Yes	**External Directorships:** None

All communications may be sent to the Directors at the head office of the Bank at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand.

Changes to Directorate

Mary Patricia Leonie Quin was appointed as a Director of the Bank on 18 May 2016. Peter Francis King was appointed as a Director of the Bank on 24 August 2016. Philip Matthew Coffey retired as a Director of the Bank on 24 August 2016. There have been no other changes in the composition of the Board of Directors of the Bank since 30 September 2015.

Conflicts of interest policy

The Board has a procedure to ensure that conflicts and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are avoided or dealt with.

Each Director must give notice to the Board of any direct or indirect interest in a matter relating to the affairs of the Bank as soon as practicable after the relevant facts have come to that Director's knowledge. Where a matter is to be considered at a Directors' meeting in which one or more Directors have an interest, the Board's practice is to manage any conflict of interest on a case-by-case basis, depending on the circumstances.

Interested transactions

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director, with the Bank, or any member of the Banking Group:

(a) on terms other than on those which would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Credit ratings

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

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

On 7 July 2016, S&P Global Ratings ('**S&P**') affirmed the Bank's credit rating at AA-, however, it revised the Bank's outlook to 'negative' from 'stable'. The revision in outlook was as a result of S&P revising the outlook for the Australian sovereign rating to 'negative' from 'stable', which resulted in a revision of the outlook for the Ultimate Parent Bank's to 'negative' from 'stable'. On 18 August 2016, Moody's Investors Service ('**Moody's**') affirmed the Bank's credit rating at Aa3, however, it revised the Bank's outlook to 'negative' from 'stable'. The revision in outlook was as a result of Moody's revising the Australian Macro Profile to "Very Strong –" from "Very Strong", which resulted in a revision of the outlook for the Ultimate Parent Bank to 'negative' from 'stable'. There have been no changes to the Bank's credit rating in the two years prior to 30 September 2016.

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

Descriptions of credit rating scales[1]

	Fitch Ratings	Moody's	S&P
The following grades display investment grade characteristics:			
Capacity to meet financial commitments is extremely strong. This is the highest issuer credit rating	AAA	Aaa	AAA
Very strong capacity to meet financial commitments	**AA**	**Aa**	**AA**
Strong capacity to meet financial commitments although somewhat susceptible to adverse changes in economic, business or financial conditions	A	A	A
Adequate capacity to meet financial commitments, but adverse business or economic conditions are more likely to impair this capacity	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant ongoing uncertainties exist which could affect the capacity to meet financial commitments on a timely basis	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default	B	B	B
Likelihood of default now considered a real possibility. Capacity to meet financial commitments is dependent on favourable business, economic and financial conditions	CCC	Caa	CCC
Highest risk of default	CC to C	Ca	CC
Obligations currently in default	RD to D	C	SD to D

[1] This is a general description of the rating categories based on information published by Fitch Ratings, Moody's and S&P.

Credit ratings by Fitch Ratings and S&P may be modified by a plus (higher end) or minus (lower end) sign to show relative standing within the major categories. Moody's apply numeric modifiers 1 (higher end), 2 or 3 (lower end) to ratings from Aa to Caa to show relative standing within the major categories.

The Bank's current position is at the lower end of the credit rating scale indicated in bold.

Guarantee arrangements

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

Conditions of registration

The registration of the Bank in New Zealand is subject to the following conditions, which applied from 1 November 2015:

1. That:
   (a) the Total capital ratio of the Banking Group is not less than 8 percent;
   (b) the Tier 1 capital ratio of the Banking Group is not less than 6 percent;
   (c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5 percent;
   (d) the Total capital of the Banking Group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document 'Application requirements for capital recognition or repayment and notification requirements in respect of capital' (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,—

   the scalar referred to in the Reserve Bank of New Zealand document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015 is 1.06.

   'Total capital ratio', 'Tier 1 capital ratio', 'Common Equity Tier 1 capital ratio', and 'Total capital' must be calculated in accordance with the Reserve Bank of New Zealand document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015,

   an Additional Tier1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That:
   (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process ('**ICAAP**')' (BS12) dated December 2007;
   (b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and Total capital ratio under the requirements set out in the document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015; and
   (c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015.

1C. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:
   (a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

Banking Group's buffer ratio	Percentage limit to distributions of the Bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

   (b) prepare a capital plan to restore the Banking Group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration,—

   'buffer ratio', 'distributions', and 'earnings' have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015.

   the scalar referred to in the Reserve Bank of New Zealand document 'Capital Adequacy Framework (Internal Models Based Approach)' (BS2B) dated November 2015 is 1.06.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of 'material' is based on generally accepted accounting practice.

Conditions of registration (continued)

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business:

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration, —

   'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance;

   'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix.

Credit rating of the Bank[1]	**Connected exposure limit (% of the Banking Group's Tier 1 capital)**
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] This table uses the rating scales of S&P, Fitch Ratings and Moody's (Fitch Ratings' scale is identical to S&P).

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled 'Connected Exposures Policy' (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (for example, as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Bank complies with the following corporate governance requirements:

   (a) the Board of the Bank must have at least five directors;

   (b) the majority of the Board members must be non-executive directors;

   (c) at least half of the Board members must be independent directors;

   (d) an alternate director:

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the Board of the Bank must be independent; and

   (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

   For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank of New Zealand document entitled 'Corporate Governance' (BS14) dated July 2014.

Conditions of registration (continued)

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the Board of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the Bank has a Board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the Bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank of New Zealand document entitled 'Corporate Governance' (BS14) dated July 2014.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
    (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
    (b) that the Bank's financial risk positions on a day can be identified on that day;
    (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
    (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    For the purposes of this condition of registration, the term 'legal and practical ability to control and execute' is explained in the Reserve Bank of New Zealand document entitled 'Outsourcing Policy' (BS11) dated January 2006.
12. That:
    (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;
    (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and
    (c) all staff employed by the Bank have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and are accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.
14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
    (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
    (c) the one-year core funding ratio of the Banking Group is not less than 75% at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled 'Liquidity Policy' (BS13) dated July 2014 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated December 2011.
15. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

Conditions of registration (continued)

16. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition:

    ‘total assets’ means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group’s assets:

    ‘SPV’ means a person:

    (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

    ‘covered bond’ means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That:

    (a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank Banking Supervision Handbook document ‘Significant Acquisitions Policy’ (BS15) dated December 2011; and

    (b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank Banking Supervision Handbook document ‘Significant Acquisitions Policy’ (BS15) dated December 2011; and

        (iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, ‘qualifying acquisition or business combination’, ‘notification threshold’ and ‘non-objection threshold’ have the same meaning as in the Reserve Bank Banking Supervision Handbook document ‘Significant Acquisitions Policy’ (BS15) dated December 2011.

18. That the Bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the Bank can:

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager:

        (i) all liabilities are frozen in full; and

        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a de minimis to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for Open Bank Resolution; and

    (f) reinstate customers’ access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, ‘de minimis’, ‘partial freeze’, ‘customer liability account’, and ‘ frozen and unfrozen funds’ have the same meaning as in the Reserve Bank of New Zealand document ‘Open Bank Resolution (OBR) Pre-positioning Requirements Policy’ (BS17) dated September 2013.

19. That the Bank has an Implementation Plan that:

    (a) is up-to-date; and

    (b) demonstrates that the Bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank of New Zealand document: ‘Open Bank Resolution Pre-positioning Requirements Policy’ (BS 17) dated September 2013.

    For the purposes of this condition of registration, ‘Implementation Plan’ has the same meaning as in the Reserve Bank of New Zealand document ‘Open Bank Resolution (OBR) Pre-positioning Requirements Policy’ (BS17) dated September 2013.

20. That the Bank has a compendium of liabilities that:

    (a) at the product-class level lists all liabilities, indicating which are:

        (i) pre-positioned for Open Bank Resolution; and

        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank’s agreement is conditional, meets the Reserve Bank’s conditions.

    For the purposes of this condition of registration, ‘compendium of liabilities’, and ‘pre-positioned and non pre-positioned liabilities’ have the same meaning as in the Reserve Bank of New Zealand document ‘Open Bank Resolution (OBR) Pre-positioning Requirements Policy’ (BS17) dated September 2013.

21. That on an annual basis the Bank tests all the component parts of its Open Bank Resolution solution that demonstrates the Bank’s prepositioning for Open Bank Resolution as specified in the Bank’s Implementation Plan.

    For the purposes of this condition of registration, ‘Implementation Plan’ has the same meaning as in the Reserve Bank of New Zealand document ‘Open Bank Resolution (OBR) Pre-positioning Requirements Policy’ (BS17) dated September 2013.

Conditions of registration (continued)

22. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amounts in respect of APIL arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.
24. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.
25. That the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the Bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration:

- 'Banking Group'—

  means Westpac New Zealand Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.
- 'generally accepted accounting practice'—

  has the same meaning as in section 8 of the Financial Reporting Act 2013.
- In conditions of registration 22 to 25,—

  "ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of […]" and 'residential mortgage loan' have the same meaning as in the Reserve Bank of New Zealand document entitled 'Framework for Restrictions on High-LVR Residential Mortgage Lending' (BS19) dated November 2015:
- 'loan-to-valuation measurement period' means—

  (a) the six calendar month period ending on the last day of April 2016; and

  (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of May 2016.

Non-compliance with conditions of registration

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

The Bank identified that since 2008 it had:

- classified its Local Government exposures as Sovereign exposures instead of Bank exposures. The increase in risk weighted assets as a result of the change is $11m as at 30 September 2016;
- not applied the 1.06 scalar to its Securitisation Exposures. The increase in risk weighted assets as a result of this change is $33m as at 30 September 2016.

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

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

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

Consequently, the Reserve Bank has advised that the Bank's compliance with advanced internal rating-based aspects of BS2B is to be independently reviewed. This review is to be conducted under section 95 of the Reserve Bank Act.

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

Changes to conditions of registration

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

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

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Historical summary of financial statements

$ millions	The Banking Group Year Ended 30-Sep-16	Year Ended 30-Sep-15	Year Ended 30-Sep-14	Year Ended 30-Sep-13	Year Ended 30-Sep-12
Income statement					
Interest income	**4,113**	4,397	3,979	3,768	3,881
Interest expense	**(2,369)**	(2,607)	(2,339)	(2,232)	(2,382)
Net interest income	**1,744**	1,790	1,640	1,536	1,499
Non-interest income	**400**	399	481	372	357
Net operating income	**2,144**	2,189	2,121	1,908	1,856
Operating expenses	**(907)**	(888)	(817)	(810)	(807)
Impairment charges on loans	**(59)**	(47)	(26)	(107)	(190)
Operating profit	**1,178**	1,254	1,278	991	859
Profit before income tax expense	**1,178**	1,254	1,278	991	859
Income tax expense	**(327)**	(343)	(337)	(277)	(246)
Profit after income tax expense	**851**	911	941	714	613
Profit after income tax expense attributable to:					
Owners of the Banking Group	**851**	908	938	711	610
Non-controlling interests	**-**	3	3	3	3
	851	911	941	714	613
Dividends paid or provided	**(660)**	(608)	(378)	(4)	(484)
Balance sheet					
Total assets	**86,307**	79,925	74,449	70,641	68,822
Total individually impaired assets	**222**	282	346	573	867
Total liabilities	**79,747**	73,534	67,844	64,062	63,026
Total equity	**6,560**	6,391	6,605	6,579	5,796

The amounts for the years ended 30 September have been extracted from the audited financial statements of the Banking Group.

Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

(a) contains all the information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the year ended 30 September 2016:

(a) the Bank has complied with all conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act except as noted on page 9;

(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Janice Amelia Dawson

David Alexander McLean

Malcolm Guy Bailey

Peter Francis King

Jonathan Parker Mason

Christopher John David Moller

Mary Patricia Leonie Quin

Dated this 7th day of December 2016

Index to financial statements

Income statement for the years ended 30 September

$ millions	Note	The Banking Group Year Ended 30-Sep-16	Year Ended 30-Sep-15
Interest income	2	**4,113**	4,397
Interest expense	2	**(2,369)**	(2,607)
Net interest income		**1,744**	1,790
Non-interest income	3	**400**	399
Net operating income		**2,144**	2,189
Operating expenses	4	**(907)**	(888)
Impairment charges on loans	6	**(59)**	(47)
Profit before income tax expense		**1,178**	1,254
Income tax expense	7	**(327)**	(343)
Profit after income tax expense		**851**	911
Profit after income tax expense attributable to:			
Owners of the Banking Group		**851**	908
Non-controlling interests		**-**	3
		851	911

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

Statement of comprehensive income for the years ended 30 September

		The Banking Group	
$ millions	Note	**Year Ended 30-Sep-16**	Year Ended 30-Sep-15
Profit after income tax expense		**851**	911
Other comprehensive expense which may be reclassified subsequently to the income statement:			
Available-for-sale securities:			
Net unrealised losses from changes in fair value of available-for-sale securities		**(21)**	(8)
Transferred to the income statement	3	**-**	(19)
Income tax effect		**6**	8
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges		**(91)**	(152)
Transferred to the income statement		**90**	23
Income tax effect		**(1)**	37
Total other comprehensive expense which may be reclassified subsequently to the income statement		**(17)**	(111)
Other comprehensive expense which will not be reclassified subsequently to the income statement:			
Remeasurement of employee defined benefit obligations		**(7)**	(7)
Income tax effect		**2**	2
Total other comprehensive expense which will not be reclassified subsequently to the income statement		**(5)**	(5)
Total other comprehensive expense, net of tax		**(22)**	(116)
Total comprehensive income		**829**	795
Total comprehensive income attributable to:			
Owners of the Banking Group		**829**	792
Non-controlling interests		**-**	3
		829	795

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

Balance sheet as at 30 September

$ millions	Note	The Banking Group 2016	2015
Assets			
Cash and balances with central banks		**1,418**	857
Due from other financial institutions	9	**720**	18
Trading securities and other financial assets designated at fair value	10	**2,128**	2,085
Derivative financial instruments	26	**130**	618
Available-for-sale securities	11	**3,790**	3,421
Loans	12,13	**75,172**	69,155
Due from related entities	25	**1,760**	2,587
Investment in associate	25	**9**	-
Property and equipment		**161**	164
Deferred tax assets	14	**191**	183
Intangible assets	15	**590**	607
Other assets	16	**238**	230
Total assets		**86,307**	79,925
Liabilities			
Due to other financial institutions	18	**15**	490
Deposits and other borrowings	19	**58,791**	52,986
Other financial liabilities at fair value through income statement	17	**400**	-
Derivative financial instruments	26	**884**	203
Debt issues	20	**14,727**	14,685
Current tax liabilities		**71**	25
Provisions	21	**90**	83
Other liabilities	22	**508**	514
Total liabilities excluding related entities liabilities		**75,486**	68,986
Due to related entities	25	**3,170**	3,405
Subordinated notes	23	**1,091**	1,143
Total related entities liabilities		**4,261**	4,548
Total liabilities		**79,747**	73,534
Net assets		**6,560**	6,391
Equity			
Share capital	24	**3,750**	3,750
Retained profits		**2,886**	2,700
Available-for-sale securities reserve		**1**	16
Cash flow hedge reserve		**(77)**	(75)
Total equity attributable to owners of the Banking Group		**6,560**	6,391
Interest earning and discount bearing assets		**85,088**	77,961
Interest and discount bearing liabilities		**72,569**	68,088

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

Signed on behalf of the Board of Directors.

J.A. Dawson
7 December 2016

J.P. Mason
7 December 2016

Statement of changes in equity for the years ended 30 September

	The Banking Group						
$ millions	**Share Capital**	**Retained Profits**	**Available-for-sale Securities Reserve**	**Cash Flow Hedge Reserve**	**Total Before Non-controlling Interests**	**Non-controlling Interests**	**Total**
As at 1 October 2014	4,150	2,397	35	17	6,599	6	6,605
Year ended 30 September 2015							
Profit after income tax expense	-	908	-	-	908	3	911
Net losses from changes in fair value	-	-	(8)	(152)	(160)	-	(160)
Income tax effect	-	-	3	43	46	-	46
Transferred to the income statement	-	-	(19)	23	4	-	4
Income tax effect	-	-	5	(6)	(1)	-	(1)
Remeasurement of employee defined benefit obligations	-	(7)	-	-	(7)	-	(7)
Income tax effect	-	2	-	-	2	-	2
Total comprehensive income for the year ended 30 September 2015	-	903	(19)	(92)	792	3	795
Transaction with owners:							
Share capital issued (refer to Note 24)	600	-	-	-	600	-	600
Share capital repurchased (refer to Note 24)	(1,000)	-	-	-	(1,000)	-	(1,000)
Dividends paid on ordinary shares (refer to Note 24)	-	(600)	-	-	(600)	(8)	(608)
Derecognition of non-controlling interest	-	-	-	-	-	(1)	(1)
As at 30 September 2015	3,750	2,700	16	(75)	6,391	-	6,391
Year ended 30 September 2016							
Profit after income tax expense	**-**	**851**	**-**	**-**	**851**	**-**	**851**
Net losses from changes in fair value	**-**	**-**	**(21)**	**(91)**	**(112)**	**-**	**(112)**
Income tax effect	**-**	**-**	**6**	**25**	**31**	**-**	**31**
Transferred to the income statement	**-**	**-**	**-**	**90**	**90**	**-**	**90**
Income tax effect	**-**	**-**	**-**	**(26)**	**(26)**	**-**	**(26)**
Remeasurement of employee defined benefit obligations	**-**	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Income tax effect	**-**	**2**	**-**	**-**	**2**	**-**	**2**
Total comprehensive income for the year ended 30 September 2016	**-**	**846**	**(15)**	**(2)**	**829**	**-**	**829**
Transaction with owners:							
Dividends paid on ordinary shares (refer to Note 24)	**-**	**(660)**	**-**	**-**	**(660)**	**-**	**(660)**
As at 30 September 2016	**3,750**	**2,886**	**1**	**(77)**	**6,560**	**-**	**6,560**

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

Statement of cash flows for the years ended 30 September

$ millions	Note	The Banking Group Year Ended 30-Sep-16	Year Ended 30-Sep-15
Cash flows from operating activities			
Interest income received		**4,136**	4,416
Interest expense paid		**(2,365)**	(2,488)
Non-interest income received		**380**	398
Operating expenses paid		**(797)**	(765)
Income tax paid		**(287)**	(325)
Cash flows from operating activities before changes in operating assets and liabilities		**1,067**	1,236
Net (increase)/decrease in:			
Due from other financial institutions		**(702)**	144
Trading securities and other financial assets designated at fair value		**(47)**	(871)
Loans		**(6,108)**	(4,538)
Due from related entities		**543**	(796)
Net increase/(decrease) in:			
Due to other financial institutions		**(475)**	289
Deposits and other borrowings		**5,805**	2,375
Other financial liabilities at fair value through income statement		**400**	(90)
Other liabilities		**(5)**	(10)
Net movement in external and related entity derivative financial instruments		**(82)**	741
Net cash provided by/(used in) operating activities	40	**396**	(1,520)
Cash flows from investing activities			
Purchase of available-for-sale securities		**(652)**	(930)
Proceeds from maturities/sale of available-for-sale securities		**300**	506
Proceeds from disposal of a subsidiary	25	**-**	7
Cash receipts from associate	25	**-**	48
Purchase of capitalised computer software		**(46)**	(38)
Proceeds from disposal of software		**-**	2
Purchase of property and equipment		**(25)**	(24)
Net cash used in investing activities		**(423)**	(429)
Cash flows from financing activities			
Issue of ordinary share capital		**-**	600
Share capital repurchased		**-**	(1,000)
Proceeds from debt issues		**7,840**	7,775
Repayments of debt issues		**(6,018)**	(7,124)
Net movement in due to related entities		**(574)**	(255)
Settlement of promissory note	25	**-**	(48)
Proceeds from issuance of subordinated notes	23	**-**	1,172
Dividends paid to ordinary shareholders	24	**(660)**	(600)
Dividends paid to minority shareholders		**-**	(8)
Net cash provided by financing activities		**588**	512
Net increase/(decrease) in cash and cash equivalents		**561**	(1,437)
Cash and cash equivalents at beginning of the year		**857**	2,294
Cash and cash equivalents at end of the year	40	**1,418**	857

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

Notes to the financial statements

Note 1 Basis of preparation

In these financial statements, reference is made to:

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

The consolidated financial statements are for the Banking Group, which comprises the Bank and its controlled entities.

These financial statements were authorised for issue by the Board of Directors of the Bank (the '**Board**') on 7 December 2016. The Board has the power to amend the financial statements after they are authorised for issue.

The principal accounting policies adopted in the preparation of these financial statements are set out below and in the relevant notes to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with:

- the requirements of the Financial Markets Conduct Act 2013;
- the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**'); and
- the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 ('**Order**').

These financial statements comply with Generally Accepted Accounting Practice in New Zealand, applicable New Zealand equivalents to International Financial Reporting Standards ('**NZ IFRS**') and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board ('**IASB**').

All amounts in these financial statements have been rounded in millions of New Zealand dollars unless otherwise stated.

(ii) Accounting conventions

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

(iii) Comparative revisions

Certain comparative information has been restated to ensure consistent treatment with the current reporting year. 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.

(iv) Changes in accounting standards

No new accounting standards or amendments have been adopted for the year ended 30 September 2016.

b. Principles of consolidation

The Banking Group subsidiaries are entities which the Bank controls and consolidates as it is exposed to, or has rights to, variable returns from the subsidiaries, and can affect those returns through its power over the subsidiaries.

All transactions between entities within the Banking Group are eliminated. Non-controlling interests and equity of non-wholly-owned subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, balance sheet and statement of changes in equity. Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date that control ceases.

The interest of non-controlling shareholders is stated at their proportion of the net profit after tax and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition-related costs are expensed as incurred (except for those arising on the issue of equity instruments which are recognised directly in equity).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous Banking Group's equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(ii) Foreign currency translation

Functional and presentational currency

The consolidated financial statements are presented in New Zealand dollars which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income for qualifying cash flow hedges.

Note 1 Basis of preparation (continued)

(iii) Reserves and non-controlling interests

Available-for-sale securities reserve

This comprises the changes in the fair value of available-for-sale financial securities, net of tax as well as fair value changes relating to movements in respect of derivatives when fair value hedge accounting is applied. These changes are transferred to non-interest income in the income statement when the asset is either disposed of or impaired.

Cash flow hedge reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of tax.

Non-controlling interests

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly by the parent entity.

c. Financial assets and financial liabilities

(i) Recognition

Purchases and sales of financial assets, except for loans and receivables, are recognised on trade-date; the date on which the Banking Group commits to purchase or sell the asset. Loans and receivables are recognised on settlement date when cash is advanced to the borrowers.

Financial liabilities are recognised when an obligation arises.

(ii) Classification and measurement

The Banking Group classifies its financial assets in the following categories: cash and balances with central banks, due from other financial institutions, trading securities and other financial assets designated at fair value, derivative financial instruments, available-for-sale securities, loans and due from related entities. The Banking Group has not classified any of its financial assets as held-to-maturity investments.

The Banking Group classifies its financial liabilities in the following categories: due to other financial institutions, deposits and other borrowings, other financial liabilities at fair value through income statement, derivative financial instruments, debt issues, due to related entities and subordinated notes.

Financial assets and financial liabilities measured at fair value through income statement are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Banking Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 27.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Banking Group has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

There may be situations where the Banking Group has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, if the Banking Group has retained control, the asset continues to be recognised on the balance sheet to the extent of the Banking Group's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the income statement.

d. Critical accounting assumptions and estimates

Applying the Banking Group's accounting policies requires the use of judgment, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are discussed in the relevant notes below.

- Note 7 Income tax expense
- Note 13 Credit quality, impaired assets and provisions for impairment charges on loans
- Note 14 Deferred tax assets
- Note 15 Intangible assets
- Note 21 Provisions
- Note 27 Fair value of financial instruments
- Note 31 Superannuation commitments

Note 1 Basis of preparation (continued)

e. Future accounting developments

The following new standards and interpretations which may have a material impact on the Banking Group have been issued, but are not yet effective and have not been early adopted by the Banking Group:

NZ IFRS 9 *Financial Instruments* (September 2014) (‘**NZ IFRS 9**’) will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement* (‘**NZ IAS 39**’). It includes a forward looking ‘expected credit loss’ impairment model, revised classification and measurement model and modifies the approach to hedge accounting. Unless early adopted, the standard will be effective for the 30 September 2019 financial year. Whilst it is not yet practical to reliably estimate the financial impact on the financial statements, the major changes under the standard are outlined below:

Impairment

NZ IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss has been incurred. Key elements of the new impairment model are:

- requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months expected credit losses is required. For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired, a provision for full lifetime expected losses is required;
- expected credit losses are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. This will involve a greater use of judgment than the existing impairment model; and
- interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired.

Classification and measurement

NZ IFRS 9 replaces the classification and measurement model in NZ IAS 39 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non–traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit and loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Hedging

NZ IFRS 9 will change hedge accounting by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. Adoption of the new hedge accounting model is optional and current hedge accounting under NZ IAS 39 can continue to be applied until the IASB completes its Accounting for Dynamic Risk Management project. The Banking Group is yet to determine whether to apply the new hedge accounting model when NZ IFRS 9 is adopted.

The Banking Group is in the process of assessing the full impact of the application of NZ IFRS 9. The financial impact on the financial statements has not yet been determined.

NZ IFRS 15 *Revenue from Contracts with Customers* (‘**NZ IFRS 15**’) was issued on 3 July 2014 and will be effective for the 30 September 2019 financial year. The standard provides a single comprehensive model for revenue recognition. It supersedes current recognition and related interpretations. The application of NZ IFRS 15 is not expected to have a material impact on the Banking Group.

NZ IFRS 16 *Leasing* (‘**NZ IFRS 16**’) was issued on 11 February 2016 and will be effective for the 30 September 2020 financial year. NZ IFRS 16 will replace NZ IAS 17 *Leases* (‘**NZ IAS 17**’). The main changes under the standard for lessees are:

- all operating leases of greater than 12 months duration will be required to be presented on balance sheet. The net present value of these leases will be recognised as an asset and a liability; and
- all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the leased asset.

For lessors, the accounting for leases under NZ IFRS 16 remains substantially the same as under NZ IAS 17. The impact of NZ IFRS 16 will be determined by the level of operating lease commitments greater than 12 months duration at adoption and is not yet practicable to determine.

Disclosure Initiative: Amendments to *NZ IAS 7 Statement of Cash Flows* was issued on 12 May 2016 and will be effective for the 30 September 2018 year end unless early adopted. Comparatives are not required on first application. The standard requires additional disclosures regarding both cash and non–cash changes in liabilities arising from financing activities. The standard is not expected to have a material impact on the Banking Group.

Note 2 Net interest income

Accounting policy

Interest income and expense for all interest earning financial assets and interest bearing financial liabilities, detailed within the table below, is recognised using the effective interest rate method. Net income from treasury's interest rate and liquidity management activities is included in net interest income.

Interest relating to impaired loans is recognised using the loan's original effective interest rate based on the net carrying value of the impaired loan or for a variable rate loan, the current effective interest rate.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

	The Banking Group	
$ millions	**Year Ended 30-Sep-16**	Year Ended 30-Sep-15
Interest income		
Cash and balances with central banks	**34**	50
Trading securities and other financial assets designated at fair value	**65**	83
Available-for-sale securities	**151**	141
Loans[1]	**3,827**	4,077
Due from related entities	**36**	46
Total interest income	**4,113**	4,397
Interest expense		
Due to other financial institutions	**1**	1
Deposits and other borrowings	**1,375**	1,772
Debt issues	**324**	318
Subordinated notes	**57**	4
Other[2]	**612**	512
Total interest expense	**2,369**	2,607
Net interest income	**1,744**	1,790

1 Interest income on loans includes interest income of $15 million (30 September 2015: $20 million) on impaired assets.
2 Includes interest expense due to related entities (refer to Note 25) and the net impact of treasury balance sheet management activities.

Of the amounts noted in total interest income and total interest expense, the amounts related to financial instruments not measured at fair value through income statement were as follows:

	The Banking Group	
$ millions	**Year Ended 30-Sep-16**	Year Ended 30-Sep-15
Interest income	**4,032**	4,291
Interest expense	**2,313**	2,529

Note 3 Non-interest income

Accounting policy

Fees and commissions income

Fees and commissions income is recognised as follows:

- *Transaction fees and commissions* are earned for facilitating transactions and are recognised once the transaction is executed;
- *Lending fees* are primarily earned for the provision of credit and other facilities to customers and are recognised as the services are provided;
- *Other non-risk fee income* includes advisory and underwriting fees which are recognised when the related service is completed.

Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest method and is recorded in interest income (for example, loan origination fees).

Dividend income

- Dividends on unquoted shares are recognised when the Banking Group's right to receive payment is established.

Note 3 Non-interest income (continued)

	The Banking Group	
$ millions	Year Ended 30-Sep-16	Year Ended 30-Sep-15
Fees and commissions		
Transaction fees and commissions	**254**	262
Lending fees	**60**	61
Management fees received from related entities (refer to Note 25)	**12**	7
Other non-risk fee income	**43**	38
Total fees and commissions	**369**	368
Net ineffectiveness on qualifying hedges	**5**	(4)
Other non-interest income		
Dividend income	**-**	2
Gain on sale of available-for-sale securities	**-**	19
Gain on disposal of a subsidiary (refer to Note 25)	**-**	4
Share of profit of associate accounted for using the equity method (refer to Note 25)	**11**	-
Other	**15**	10
Total other non-interest income	**26**	35
Total non-interest income	**400**	399

Note 4 Operating expenses

	The Banking Group	
$ millions	Year Ended 30-Sep-16	Year Ended 30-Sep-15
Staff expenses		
Employee remuneration, entitlements and on-costs	**392**	391
Superannuation costs:		
Defined contribution scheme	**29**	30
Defined benefit scheme	**2**	1
Share-based payments	**3**	4
Restructuring costs	**-**	1
Other	**7**	8
Total staff expenses	**433**	435
Occupancy expenses		
Operating lease rentals	**64**	66
Depreciation	**45**	38
Equipment repairs and maintenance	**10**	10
Other	**10**	11
Total occupancy expenses	**129**	125
Other expenses		
Outsourcing	**106**	98
Purchased services	**97**	69
Software amortisation costs	**63**	91
Advertising	**22**	11
Postage and freight	**17**	17
Stationery	**11**	12
Litigation and non-lending losses	**3**	2
Related entities - management fees (refer to Note 25)	**2**	3
Other	**24**	25
Total other expenses	**345**	328
Total operating expenses	**907**	888

Note 5 Auditors' remuneration

$'000s	The Banking Group Year Ended 30-Sep-16	Year Ended 30-Sep-15
Audit and audit related services		
Audit and review of financial statements[1]	**1,233**	1,205
Other audit related services[2]	**45**	34
Total remuneration for audit and other audit related services	**1,278**	1,239
Other services[3]	**140**	146
Total remuneration for non-audit services	**140**	146
Total remuneration for audit, other audit related services and non-audit services	**1,418**	1,385

1 Fees for the annual audit of the financial statements, the review or other procedures performed on the interim financial statements and Sarbanes-Oxley reporting undertaken in the role of auditor.
2 Primarily assurance provided on certain financial information performed in the role of auditor, including the issue of comfort letters in relation to debt issuance programmes.
3 Assurance and agreed procedures relating to other regulatory and compliance matters.

The amounts in the table above are presented exclusive of goods and services tax ('**GST**'). It is the Banking Group's policy to engage the external auditors on assignments additional to their statutory audit duties only if their independence is not either impaired or seen to be impaired, and where their expertise and experience with the Banking Group is important.

Note 6 Impairment charges on loans

Accounting policy

Impaired loans

A loan, or group of loans, is impaired when there is objective evidence that its principal or interest repayments may not be recoverable. An impairment charge is recognised when the financial impact of the non-recoverable loan can be reliably measured. At each balance sheet date, the Banking Group assesses whether any loans are impaired, recognising an impairment charge if required.

Objective evidence of impairment could include breach of contract with the Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties, or observable economic conditions that correlate to defaults on a group of loans.

If a loan is impaired, the impairment charge is measured as the difference between the loan's current carrying amount and the present value of its estimated future cash flows. The estimated future cash flows exclude any expected future credit losses which have not yet occurred and are discounted to their present value using the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate.

The impairment charge is recognised in the income statement with a corresponding reduction of the carrying value of the loan through an offsetting provision account (refer to Note 13).

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. Objective evidence could include a borrower's credit rating or financial circumstances improving. The impairment charge is reversed in the income statement of that future period and the related provision for impairment is reduced.

Uncollectable loans

An impaired loan may become uncollectable in full or part if, after following the Banking Group's loan recovery procedures, the Banking Group remains unable to collect that loan's contractual repayments. Uncollectable loans are written off against their related provision for impairment after all possible recoveries have been made.

The Banking Group may subsequently be able to recover cash flows from loans written off. In the period which these recoveries are made, they are recognised in the income statement.

$ millions	The Banking Group For the year ended 30 September 2016 Residential Mortgages	Other Retail	Corporate	Other	Total
Collectively assessed provisions	**(12)**	**(8)**	**28**	**-**	**8**
Individually assessed provisions	**-**	**2**	**4**	**-**	**6**
Bad debts written off directly to the income statement	**1**	**43**	**1**	**-**	**45**
Total impairment (recoveries)/charges on loans	**(11)**	**37**	**33**	**-**	**59**

$ millions	The Banking Group For the year ended 30 September 2015 Residential Mortgages	Other Retail	Corporate	Other	Total
Collectively assessed provisions	(14)	(2)	(7)	-	(23)
Individually assessed provisions	9	3	22	-	34
Bad debts written off directly to the income statement	3	32	1	-	36
Total impairment (recoveries)/charges on loans	(2)	33	16	-	47

Refer to Note 13 for further details on Provisions for impairment charges on loans.

Note 7 Income tax expense

Accounting policy

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax is the expected tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Goods and services tax

Revenue, expenses and assets are recognised net of GST except to the extent that GST is not recoverable from the Inland Revenue. In these circumstances, GST is recognised as part of the expense or the cost of the asset.

Critical accounting assumptions and estimates

The Banking Group operates in multiple tax jurisdictions and significant judgment is required in determining the worldwide current tax liability. There are many transactions with uncertain tax outcomes and provisions are held to reflect these tax uncertainties.

	The Banking Group	
	Year Ended	Year Ended
$ millions	**30-Sep-16**	30-Sep-15
Income tax expense		
Current tax:		
Current year	**336**	343
Prior year adjustments	**(2)**	(3)
Deferred tax (refer to Note 14):		
Current year	**(9)**	7
Prior year adjustments	**2**	(4)
Total income tax expense	**327**	343
Profit before income tax expense	**1,178**	1,254
Tax calculated at tax rate of 28%	**330**	351
Income not subject to tax	**(4)**	(2)
Expenses not deductible for tax purposes	**1**	1
Prior year adjustments	**-**	(7)
Total income tax expense	**327**	343

The effective tax rate for the year ended 30 September 2016 was 27.8% (30 September 2015: 27.4%).

Note 8 Imputation credit account

	The Banking Group	
$ millions	**2016**	2015
Imputation credits available for use in subsequent reporting periods	**668**	744

Note 9 Due from other financial institutions

Accounting policy

Receivables due from other financial institutions are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

	The Banking Group	
$ millions	**2016**	2015
Loans and advances to other banks	**720**	18
Total due from other financial institutions	**720**	18
Due from other financial institutions:		
At call	**-**	-
Term	**720**	18
Total due from other financial institutions	**720**	18
Amounts expected to be recovered within 12 months	**720**	18
Amounts expected to be recovered after 12 months	**-**	-
Total due from other financial institutions	**720**	18

Note 10 Trading securities and other financial assets designated at fair value

Accounting policy

Trading securities include actively traded debt (government and other) and those acquired for sale in the near term.

Gains and losses on trading securities are recognised in the income statement. Interest received from government and other debt securities is recognised in net interest income (refer to Note 2).

	The Banking Group	
$ millions	**2016**	2015
Government and semi-government securities	**1,058**	944
Other debt securities	**1,070**	1,141
Total trading securities and other financial assets designated at fair value	**2,128**	2,085
Amounts expected to be recovered within 12 months	**1,809**	1,691
Amounts expected to be recovered after 12 months	**319**	394
Total trading securities and other financial assets designated at fair value	**2,128**	2,085

Note 11 Available-for-sale securities

Accounting policy

Available-for-sale (government and other) securities are held at fair value with gains and losses recognised in other comprehensive income except for the following amounts recognised in the income statement:

- Interest on debt securities; and
- Impairment charges.

The cumulative gain or loss recognised in other comprehensive income is subsequently recognised in the income statement when the instrument is disposed.

At each reporting date, the Banking Group assesses whether any available-for-sale securities are impaired. Impairment exists if one or more events have occurred which have a negative impact on the security's estimated cash flows.

Evidence of impairment includes significant financial difficulties or adverse changes in the payment status of an issuer. If impairment exists, the cumulative loss is removed from other comprehensive income and recognised in the income statement. Any subsequent reversals of impairment on debt securities are also recognised in the income statement.

	The Banking Group	
$ millions	**2016**	2015
Government and semi-government securities	**2,409**	2,193
Other debt securities	**1,381**	1,228
Total available-for-sale securities	**3,790**	3,421
Amounts expected to be recovered within 12 months	**141**	308
Amounts expected to be recovered after 12 months	**3,649**	3,113
Total available-for-sale securities	**3,790**	3,421

Note 12 Loans

Accounting policy

Loans are financial assets initially recognised at fair value plus directly attributable transaction costs. Loans are subsequently measured at amortised cost using the effective interest rate method and are presented net of any provisions for impairment.

Loan products that have both a housing loan and deposit facility are presented gross on the balance sheet, segregating the asset and liability component, because they do not meet the criteria to be offset. Interest earned on these products is presented on a net basis in the income statement as this reflects how the customer is charged.

The following table shows loans disaggregated by type of product:

$ millions	The Banking Group 2016	2015
Overdrafts	**1,313**	1,249
Credit card outstandings	**1,503**	1,537
Money market loans	**1,362**	1,386
Term loans:		
Housing	**45,153**	42,152
Non-housing	**25,425**	22,475
Other	**851**	771
Total gross loans	**75,607**	69,570
Provisions for impairment charges on loans	**(435)**	(415)
Total net loans	**75,172**	69,155
Amounts expected to be recovered within 12 months	**9,527**	7,893
Amounts expected to be recovered after 12 months	**65,645**	61,262
Total net loans	**75,172**	69,155

As at 30 September 2016, $6,591 million of housing loans were used by the Banking Group to secure the obligations of Westpac Securities NZ Limited ('**WSNZL**') under the Bank's Global Covered Bond Programme ('**CB Programme**') (30 September 2015: $4,821 million). These housing loans were not derecognised from the Banking Group's balance sheet in accordance with the accounting policies outlined in Note 1. As at 30 September 2016, the New Zealand dollar equivalent of bonds issued by WSNZL under the CB Programme was $3,480 million (30 September 2015: $4,022 million).

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 13.

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans

Accounting policy

The Banking Group recognises two types of impairment provisions for its loans, being provisions for loans which are:

- individually assessed to be impaired; and
- collectively assessed to be impaired.

Note 6 explains how impairment charges are determined. The Banking Group assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where the loans are assessed as impaired, individually assessed provisions will be recognised; and.
- if an individually assessed loan is not impaired, it is then included in a group of loans with similar risk characteristics and, along with those loans below the specified thresholds noted above, collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognised.

Critical accounting assumptions and estimates

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Banking Group to reduce differences between impairment provisions and actual loss experience.

Individual component

Key judgments include the business prospects for the customer, the realisable value of collateral, the Banking Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Judgments can change with time as new information becomes available or as loan recovery strategies evolve, which may result in revisions to the impairment provision.

Collective component

Key judgments include estimated loss rates and their related emergence periods. The emergence period for each loan type is determined through studies of loss emergence patterns. Loan files are reviewed to identify the average period between observable loss indicator events and the loss becoming identifiable.

Actual credit losses may differ materially from reported loan impairment provisions due to uncertainties including interest rates and their effect on consumer spending, unemployment levels, payment behaviour and bankruptcy rates.

Note 13 Credit quality, impaired assets and provisions for impairment charges on loans (continued)

	The Banking Group 2016					The Banking Group 2015				
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Other**	**Total**	Residential Mortgages	Other Retail	Corporate	Other	Total
Neither past due nor impaired	**44,273**	**3,625**	**26,033**	**250**	**74,181**	41,205	3,518	22,913	388	68,024
Past due but not impaired assets										
Less than 30 days past due	**732**	**132**	**106**	**-**	**970**	762	136	136	1	1,035
At least 30 days but less than 60 days past due	**62**	**18**	**43**	**-**	**123**	67	21	4	-	92
At least 60 days but less than 90 days past due	**30**	**10**	**15**	**-**	**55**	34	10	10	-	54
At least 90 days past due	**31**	**15**	**10**	**-**	**56**	35	19	29	-	83
Total past due assets not impaired	**855**	**175**	**174**	**-**	**1,204**	898	186	179	1	1,264
Individually impaired assets[1]										
Balance at beginning of the year	**49**	**2**	**231**	**-**	**282**	57	4	285	-	346
Additions	**35**	**6**	**104**	**-**	**145**	64	5	119	-	188
Amounts written off	**(7)**	**-**	**(13)**	**-**	**(20)**	(14)	(5)	(43)	-	(62)
Returned to performing or repaid	**(52)**	**(4)**	**(129)**	**-**	**(185)**	(58)	(2)	(130)	-	(190)
Balance at end of the year	**25**	**4**	**193**	**-**	**222**	49	2	231	-	282
Total gross loans[2]	**45,153**	**3,804**	**26,400**	**250**	**75,607**	42,152	3,706	23,323	389	69,570
Individually assessed provisions										
Balance at beginning of the year	**14**	**1**	**103**	**-**	**118**	19	2	123	-	144
Impairment charges on loans:										-
New provisions	**8**	**2**	**13**	**-**	**23**	20	5	30	-	55
Recoveries	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Reversal of previously recognised										-
impairment charges on loans	**(8)**	**-**	**(9)**	**-**	**(17)**	(11)	(2)	(8)	-	(21)
Amounts written off	**(7)**	**-**	**(12)**	**-**	**(19)**	(14)	(4)	(44)	-	(62)
Interest adjustments	**-**	**-**	**-**	**-**	**-**	-	-	2	-	2
Balance at end of the year	**7**	**3**	**95**		**105**	14	1	103		118
Collectively assessed provisions										
Balance at beginning of the year	**55**	**93**	**181**	**-**	**329**	66	86	177	-	329
Impairment (reversals)/charges on loans	**(12)**	**(8)**	**28**	**-**	**8**	(14)	(2)	(7)	-	(23)
Interest adjustments	**3**	**10**	**11**	**-**	**24**	3	11	11	-	25
Disposal of a subsidiary	**-**	**-**	**-**	**-**	**-**	-	(2)	-	-	(2)
Balance at end of the year	**46**	**95**	**220**	**-**	**361**	55	93	181	-	329
Total provisions for impairment charges on loans and credit commitments	**53**	**98**	**315**	**-**	**466**	69	94	284	-	447
Provision for credit commitments										-
(refer to Note 21)	**-**	**(4)**	**(27)**	**-**	**(31)**	-	(3)	(29)	-	(32)
Total provisions for impairment charges on loans	**53**	**94**	**288**	**-**	**435**	69	91	255	-	415
Total net loans	**45,100**	**3,710**	**26,112**	**250**	**75,172**	42,083	3,615	23,068	389	69,155

1 The Banking Group had undrawn commitments of $14 million (30 September 2015: $103 million) to counterparties for whom drawn balances are classified as individually impaired assets under corporate loans as at 30 September 2016.

2 The Banking Group does not have other assets under administration as at 30 September 2016.

Note 14 Deferred tax assets

Accounting policy

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes.

Deferred tax is determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled.

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, the same taxable entity or group, and where there is a legal right and intention to settle on a net basis.

Deferred tax assets are recognised to the extent that is it probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for the following temporary differences:

- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss; and
- the initial recognition of goodwill in a business combination.

As described in Note 7, tax is considered one of the Banking Group's critical accounting assumptions and estimates.

	The Banking Group	
$ millions	**2016**	2015
Deferred tax assets are attributable to the following:		
Property and equipment	**9**	7
Provisions for impairment charges on loans	**134**	128
Provision for employee entitlements	**17**	14
Cash flow hedges	**28**	29
Other temporary differences	**3**	5
Balance at end of the year	**191**	183
The deferred tax credit/(charge) in income tax expense comprises the following temporary differences:		
Property and equipment	**2**	5
Provisions for impairment charges on loans	**6**	(4)
Provision for employee entitlements	**1**	1
Other temporary differences	**(2)**	(5)
Total deferred tax credit/(charge) in income tax expense	**7**	(3)
The deferred tax credit/(charge) in other comprehensive income comprises the following temporary differences:		
Cash flow hedges	**(1)**	37
Provision for employee entitlements	**2**	2
Other temporary differences	**-**	3
Total deferred tax credit in other comprehensive income	**1**	42

Note 15 Intangible assets

Accounting policy

Indefinite life intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, generally being the excess of:

i) the consideration paid; over

ii) the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Subsequently, goodwill is not amortised but rather tested for impairment. Impairment is tested at least annually or whenever there is an indication of impairment. An impairment charge is recognised when a cash generating unit's (CGU) carrying value exceeds its recoverable amount. Recoverable amount means the higher of the CGU's fair value less costs to sell and its value-in-use.

Finite life intangible assets

Finite life intangibles include computer software and are recognised initially at cost and subsequently at amortised cost less any impairment.

Intangible	Useful life	Depreciation method
Goodwill	Indefinite	Not applicable
Computer software	3 to 8 years	Straight-line or diminishing balance method (using the Sum of the Years Digits)

Note 15 Intangible assets (continued)

Critical accounting assumptions and estimates

Judgment is required in determining the fair value of assets and liabilities acquired in a business combination. A different assessment of fair values would have resulted in a different goodwill balance and different post-acquisition performance of the acquired entity.

When assessing impairment of intangible assets, significant judgment is needed to determine the appropriate cash flows and discount rates to be applied to the calculations. The significant assumptions applied to the value-in-use calculation are outlined below.

	The Banking Group	
$ millions	**2016**	2015
Goodwill		
Cost	**477**	477
Accumulated impairment	**-**	-
Net carrying amount of goodwill	**477**	477
Computer software		
Cost	**618**	562
Accumulated amortisation and impairment	**(505)**	(432)
Net carrying amount of computer software	**113**	130
Total goodwill and other intangible assets	**590**	607

Significant assumptions used in the recoverable amount calculations

Goodwill is allocated to and tested at least annually for impairment as part of identified CGUs.

Goodwill has been allocated to the Consumer Banking and Wealth operating segment. Assumptions are used to determine the CGU's recoverable amount for goodwill, which is based on value-in-use calculations. Value-in-use refers to the present value of expected cash flows under its current use. The Banking Group discounts the projected cash flows by its adjusted pre-tax equity rate.

- Banking Group's after tax return on equity was 11.0% (2015: 11.0%)
- Banking Group's adjusted pre-tax equity rate was 15.3% (2015: 15.3%)

For the purpose of goodwill impairment testing, the assumptions in the following table are made for the CGU. The forecasts applied by management are not reliant on any one particular assumption.

Assumption	Based on:
Cash flows	Zero growth rate beyond 2 year forecast
Economic market conditions	Current market expectations
Business performance	Observable historical information and current market expectations of the future

A reasonably possible change in these key assumptions would not result in an indication of impairment or cause the CGU's carrying amount to exceed its recoverable amount.

Note 16 Other assets

	The Banking Group	
$ millions	**2016**	2015
Accrued interest receivable	**127**	150
Trade debtors and prepayments	**67**	45
Other	**44**	35
Total other assets	**238**	230
Amounts expected to be recovered within 12 months	**234**	223
Amounts expected to be recovered after 12 months	**4**	7
Total other assets	**238**	230

Included in accrued interest receivable as at 30 September 2016 were balances that amounted to $13 million (30 September 2015: $11 million) which relate to accrued interest on housing loans sold to a special purpose entity under the CB Programme (refer to Note 33 for details of the CB Programme).

Notes to the financial statements

Note 17 Financial assets pledged as collateral

Accounting policy

Security repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. trading securities or available-for-sale).

The cash consideration received is recognised as a liability ('security repurchase agreements'). Security repurchase agreements are designated at fair value and recognised as part of other financial liabilities at fair value through income statement, where they are managed as part of a trading portfolio; otherwise they are measured on an amortised cost basis and recognised in due to other financial institutions or due to related entities, depending on the counterparty.

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 33, the carrying value of these financial assets pledged as collateral is:

	The Banking Group	
$ millions	**2016**	2015
Cash	**720**	18
Securities pledged under repurchase agreements		
Available-for-sale securities[1]	**483**	4
Total amount pledged to secure liabilities (excluding CB Programme)	**1,203**	22

[1] As at 30 September 2016, $83 million of available-for-sale securities were pledged as collateral to the New Zealand Branch of the Ultimate Parent Bank ('**NZ Branch**') (30 September 2015: $4 million) which is recorded within due to related entities and $400 million was pledged to third parties (30 September 2015: nil) which is recorded as other financial liabilities at fair value through income statement.

Note 18 Due to other financial institutions

Accounting policy

Payables due to other financial institutions are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

	The Banking Group	
$ millions	**2016**	2015
Interest bearing interbank deposits	**6**	487
Non-interest bearing, repayable at call	**9**	3
Total due to other financial institutions	**15**	490
Due to other financial institutions:		
At call	**9**	3
Term	**6**	487
Total due to other financial institutions	**15**	490
Amounts expected to be settled within 12 months	**15**	490
Amounts expected to be settled after 12 months	**-**	-
Total due to other financial institutions	**15**	490

Note 19 Deposits and other borrowings

Accounting policy

Deposits and other borrowings are initially recognised at fair value and subsequently either measured at amortised cost using the effective interest rate method or at fair value.

Deposits and other borrowings are designated at fair value if they are managed on a fair value basis; reduce or eliminate an accounting mismatch; or contain an embedded derivative.

Where they are measured at fair value, any changes in fair value (except those due to changes in credit risk) are recognised as non-interest income.

The change in the fair value that is due to changes in credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised in net interest income using the effective interest rate method.

Note 19 Deposits and other borrowings (continued)

$ millions	The Banking Group 2016	2015
Deposits and other borrowings at fair value		
Certificates of deposit	**1,250**	1,070
Total deposits and other borrowings at fair value	**1,250**	1,070
Deposits and other borrowings at amortised cost		
Non-interest bearing, repayable at call	**4,621**	4,032
Other interest bearing:		
At call	**23,741**	23,871
Term	**29,179**	24,013
Total deposits and other borrowings at amortised cost	**57,541**	51,916
Total deposits and other borrowings	**58,791**	52,986
Amounts expected to be settled within 12 months	**57,169**	51,142
Amounts expected to be settled after 12 months	**1,622**	1,844
Total deposits and other borrowings	**58,791**	52,986

Priority of financial liabilities in the event of liquidation

In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Note 20 Debt issues

Accounting policy

Debt issues are bonds, notes and commercial paper that have been issued by the Banking Group.

Debt issues are initially measured at fair value and subsequently either measured at amortised cost using the effective interest rate method or at fair value.

Debt issues are designated at fair value if they reduce or eliminate an accounting mismatch.

They are measured at fair value with changes in fair value (except those due to changes in credit risk) recognised as non-interest income.

The change in the fair value that is due to credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised within net interest income using the effective interest rate method.

In the table below, the distinction between short term (less than 12 months) and long term (greater than 12 months) debt is based on the maturity of the underlying security at origination.

$ millions	The Banking Group 2016	2015
Short-term debt		
Commercial paper	**2,410**	2,716
Total short-term debt	**2,410**	2,716
Long-term debt		
Non-domestic medium-term notes	**5,616**	5,024
Covered Bonds	**3,480**	4,022
Domestic medium-term notes	**3,221**	2,923
Total long-term debt	**12,317**	11,969
Total debt issues	**14,727**	14,685
Debt issues at amortised cost	**12,317**	11,969
Debt issues at fair value	**2,410**	2,716
Total debt issues	**14,727**	14,685
Movement in debt issues		
Balance at beginning of the year	**14,685**	12,592
Issuance during the year	**7,840**	7,775
Repayments during the year	**(6,018)**	(7,124)
Effect of foreign exchange movements during the year	**(1,824)**	1,464
Effect of fair value movements and amortisation adjustments during the year	**44**	(22)
Balance at end of the year	**14,727**	14,685
Amounts expected to be settled within 12 months	**5,729**	4,935
Amounts expected to be settled after 12 months	**8,998**	9,750
Total debt issues	**14,727**	14,685

Note 21 Provisions

Accounting policy

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

Employee benefits – annual leave and other employee benefits

The provision for annual leave and other employee benefits (including wages and salaries, inclusive of non-monetary benefits, and any associated on-costs (e.g. payroll tax)) is calculated based on expected payments.

Provision for impairment on credit commitments

The Banking Group is committed to provide facilities and guarantees as explained in Note 29. If it is probable that a facility will be drawn and the resulting asset will be less than the drawn amount then a provision for impairment is recognised. The provision for impairment is calculated using the same methodology as the provision for impairment charges on loans (refer to Note 6).

Critical accounting assumptions and estimates

Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows.

Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

	The Banking Group					
$ millions	Annual Leave and Other Employee Benefits	Provision for Impairment on Credit Commitments	Long Service Leave	Restructuring (refer to Note 25)	Litigation and Non-lending Losses	Total
For the year ended 30 September 2016						
Balance as at 1 October 2015	**34**	**32**	**6**	**5**	**6**	**83**
Additional provisions recognised	**30**	**1**	**5**	**9**	**3**	**48**
Utilised during the year	**(26)**	**(2)**	**-**	**(7)**	**(6)**	**(41)**
Balance as at 30 September 2016	**38**	**31**	**11**	**7**	**3**	**90**
For the year ended 30 September 2015						
Balance as at 1 October 2014	33	31	6	-	6	76
Additional provisions recognised	31	2	2	8	2	45
Utilised during the year	(30)	(1)	(2)	(3)	(2)	(38)
Balance as at 30 September 2015	34	32	6	5	6	83

Provisions expected to be utilised beyond 12 months as at 30 September 2016 are $42 million (30 September 2015: $38 million).

Note 22 Other liabilities

	The Banking Group	
$ millions	**2016**	2015
Accrued interest payable	**321**	339
Credit card loyalty programme	**32**	35
Retirement benefit obligations (refer to Note 31)	**27**	19
Trade creditors and other accrued expenses	**83**	71
Other	**45**	50
Total other liabilities	**508**	514
Amounts expected to be settled within 12 months	**477**	490
Amounts expected to be settled after 12 months	**31**	24
Total other liabilities	**508**	514

Note 23 Subordinated notes

Accounting policy

Subordinated notes issued by the Banking Group are initially recognised as a financial liability and recorded at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Tier Two Notes

On 8 September 2015, the Bank issued 1,040,000 subordinated notes at a face value of A$1,000 each ('**Tier Two Notes**') to the London Branch of the Ultimate Parent Bank ('**London Branch**'). The Tier Two Notes are convertible, redeemable, subordinated and unsecured debt securities of the Bank. The Tier Two Notes rank equally amongst themselves and are subordinated to the claims of depositors and other unsubordinated creditors of the Bank. The Tier Two Notes mature on 22 March 2026. The Tier Two Notes qualify for Tier 2 regulatory capital recognition under the Reserve Bank of New Zealand ('**Reserve Bank**') Capital Adequacy Framework.

Interest payable

Interest is payable quarterly in arrears at a rate based on the Australian 90 day bank bill rate plus a margin of 2.87% per annum. Interest payments on the Tier Two Notes are subject to the Bank being solvent at the time of the interest payment and immediately following the interest payment.

Conversion

If a non-viability trigger event occurs, the Bank must convert such number of the Tier Two Notes into a variable number of ordinary shares issued by the Bank (calculated by reference to the net assets of the Bank and the total number of ordinary shares) that is sufficient to satisfy the direction of the Reserve Bank or the decision of the statutory manager. A non-viability trigger event occurs when the Reserve Bank directs the Bank to convert or write-off all or some of the Bank's capital instruments that qualify for Tier 1 or Tier 2 regulatory capital recognition under the Reserve Bank Capital Adequacy Framework ('**Capital Instruments**') or the Bank is declared subject to statutory management pursuant to section 117 of the Reserve Bank Act and the statutory manager decides the Bank must convert or write-off all or some of the Capital Instruments.

If conversion of the Tier Two Notes fails to take effect within five business days, holders' rights in relation to the Tier Two Notes will be terminated.

Redemption

The Bank may elect to redeem all or some of the Tier Two Notes early for their face value together with accrued interest (if any) on 22 March 2021 or any interest payment date thereafter, subject to certain conditions including the Reserve Bank's prior written approval ('**Redemption Conditions**'). Early redemption of all of the Tier Two Notes for certain tax reasons or regulatory reasons is permitted on an interest payment date subject to the Redemption Conditions.

Note 24 Share capital

Accounting policy

Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Ordinary shares fully paid

	The Banking Group	
	2016 Number of Shares Issued and Authorised	2015 Number of Shares Issued and Authorised
Balance at beginning of the year	**3,750,001,000**	4,150,001,000
Share capital issued	**-**	600,000,000
Share capital repurchased	**-**	(1,000,000,000)
Balance at end of the year	**3,750,001,000**	3,750,001,000

In accordance with the Reserve Bank document 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)' ('**BS2B**') ordinary share capital is classified as Common Equity Tier 1 capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

The Directors of the Bank paid a dividend of $330 million on 19 February 2016 and $330 million on 19 August 2016, on the ordinary shares on issue to Westpac New Zealand Group Limited ('**WNZGL**').

On 4 December 2014, the Bank repurchased 450 million ordinary shares from is immediate parent company WNZGL. Each share was repurchased for $1 per share. These shares were immediately cancelled on repurchase. On 19 August 2015, the Directors of the Bank paid a dividend of $600 million on the ordinary shares on issue to WNZGL (16.22 cents per share). Immediately after this payment the Bank issued 600 million ordinary shares to WNZGL for $1 per share. On 8 September 2015, the Bank issued Tier Two Notes of A$1,040 million to the London Branch (refer to Note 23). On receipt of the proceeds from the issue of the Tier Two Notes, the Bank repurchased 550 million ordinary shares from its immediate parent company WNZGL at $1 per share. These shares were immediately cancelled on repurchase.

Note 25 Related entities

Related Entities

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

Banking Group

The Bank is a controlled entity of WNZGL. The ultimate parent bank of the Bank is Westpac Banking Corporation.

The Banking Group consists of the Bank and all of its controlled entities. As at 30 September 2016, the Bank had the following controlled entities:

Name of Entity	Principal Activity	Notes
Westpac NZ Operations Limited	Holding company	
Aotearoa Financial Services Limited	Non-active company	
Number 120 Limited	Finance company	
The Home Mortgage Company Limited	Residential mortgage company	
Westpac (NZ) Investments Limited	Property company	
Westpac Securities NZ Limited	Funding company	
Westpac New Zealand Staff Superannuation Scheme Trustee Limited[1]	Trustee company	Established on 30 June 2016
Westpac NZ Covered Bond Holdings Limited	Holding company	9.5% owned[2]
Westpac NZ Covered Bond Limited	Guarantor	9.5% owned[2]
Westpac NZ Securitisation Holdings Limited	Holding company	9.5% owned[3]
Westpac NZ Securitisation Limited	Funding company	9.5% owned[3]
Westpac NZ Securitisation No.2 Limited	Non-active company	9.5% owned[3]
Westpac Term PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Cash PIE Fund	Portfolio investment entity	Not owned[4]
Westpac Notice Saver PIE Fund	Portfolio investment entity	Not owned[4]

1 Westpac New Zealand Staff Superannuation Scheme Trustee Limited ('**WNZSSSTL**'), a wholly owned subsidiary of Westpac NZ Operations Limited ('**WNZO**') was incorporated on 30 June 2016 to provide services as the trustee of the Westpac New Zealand Staff Superannuation Scheme.

2 The Banking Group, through its subsidiary, WNZO, has a qualifying interest of 9.5% in Westpac NZ Covered Bond Holdings Limited ('**WNZCBHL**') and its wholly-owned subsidiary company, Westpac NZ Covered Bond Limited ('**WNZCBL**'). The Bank is considered to control both WNZCBHL and WNZCBL based on contractual arrangements in place, and as such both WNZCBHL and WNZCBL are consolidated within the financial statements of the Banking Group.

3 The Banking Group, through its subsidiary WNZO, has a qualifying interest of 9.5% in Westpac NZ Securitisation Holdings Limited ('**WNZSHL**') and its wholly-owned subsidiary companies, Westpac NZ Securitisation Limited ('**WNZSL**') and Westpac NZ Securitisation No.2 Limited ('**WNZSL2**'). The Bank is considered to control WNZSHL, WNZSL and WNZSL2 based on contractual arrangements in place, and as such WNZSHL, WNZSL and WNZSL2 are consolidated within the financial statements of the Banking Group.

4 Westpac Term PIE Fund, Westpac Cash PIE Fund and Westpac Notice Saver PIE Fund (collectively referred to as the '**PIE Funds**') were established as unit trusts. The PIE Funds are Portfolio Investment Entities ('**PIE**'), where BT Funds Management (NZ) Limited ('**BTNZ**') (an indirectly wholly-owned subsidiary of the Ultimate Parent Bank) is the manager and issuer. The manager has appointed the Bank to perform all customer management and account administration for the PIE Funds. The Bank is the PIE Funds' registrar and administration manager. The Bank does not hold any units in the PIE Funds, however is considered to control them based on contractual arrangements in place, and as such the PIE Funds are consolidated in the financial statements of the Banking Group.

Other than disclosed below, there have been no changes in the ownership percentages since 30 September 2015.

All entities in the Banking Group are 100% owned unless otherwise stated. All the entities within the Banking Group have a balance date of 30 September and are incorporated in New Zealand, except WNZSSSTL and the PIE Funds which have a balance date of 31 March.

On 30 September 2015, WNZO sold its 51% share of The Warehouse Financial Services Limited ('**TWFSL**') for cash consideration of $7 million and the gain on sale amounted to $4 million (refer to Note 3).

Transactions and balances with related parties are disclosed separately in these financial statements.

Investment in associate

In March 2016, the Banking Group changed the method of accounting for its investment in Paymark Limited from cost method to equity method. At 30 September 2016, the carrying value of the investment in associate related to Paymark Limited was $9 million. WNZO holds 25% of Paymark Limited's equity. Paymark Limited has a balance date of 31 March. The share of associate profit recognised for the year ended 30 September 2016 is $11 million (refer to Note 3).

The Banking Group had on issue a promissory note to its associate, Cards NZ Limited ('**Cards NZ**'), in relation to the purchase of Visa Inc. shares. The promissory note was settled in July 2015.

On 30 September 2015, Cards NZ ceased to operate as a business and distributed its remaining net assets to its shareholders. The Banking Group received $48 million from Cards NZ on 30 September 2015. Cards NZ was removed from the Companies Register on 16 August 2016.

Nature of transactions

The Banking Group has intragroup transactions with members of the Ultimate Parent Bank and its controlled entities ('**Ultimate Parent Bank Group**') on commercial terms, including the provision of management and administrative services and data processing facilities.

Loan finance and current account banking facilities are provided by the Ultimate Parent Bank to members of the Banking Group on normal commercial terms. The interest earned on these loans and the interest paid on these deposits are at market rates.

Transactions with the Ultimate Parent Bank

Management fees are paid by the Banking Group to the Ultimate Parent Bank for management and administration services (consisting of salaries, data processing facilities and other head office expenses) provided by the Ultimate Parent Bank. The total amount charged by the Ultimate Parent Bank for the year ended 30 September 2016 was $2 million (30 September 2015: $3 million) (refer to Note 4).

The Ultimate Parent Bank operates in New Zealand through both the NZ Branch and the Banking Group. Derivative transactions are entered into by the Banking Group with the NZ Branch. Management systems and operational controls are in place to manage any resulting interest rate or currency risk. Accordingly, it is not envisaged that any liability resulting in material loss will arise from these transactions.

Note 25 Related entities (continued)

Transactions with the Ultimate Parent Bank (continued)

Included within interest expense - other for the year ended 30 September 2016 is interest expense of $65 million (30 September 2015: $96 million) on the $1.31 billion (30 September 2015: $2.1 billion) funding provided by the NZ Branch in November 2011 to finance the Banking Group's acquisition of business activities transferred to it by the NZ Branch. On 31 March 2016, the Banking Group repaid $790 million of the $2.1 billion funding provided.

The NZ Branch provides financial market services, foreign currency, trade and interest rate risk products to the customers of the Banking Group. The Banking Group receives commission from these sales. Commission received for the year ended 30 September 2016 was $52 million (30 September 2015: $50 million) recorded within transaction fees and commissions.

Effective 1 October 2014, the Bank and the NZ Branch entered into an agreement whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products. This is treated as a financial guarantee for accounting purposes. Financial guarantee contracts are recognised as financial liabilities (recorded within provisions) at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

Management fees are paid by the NZ Branch for certain operating costs incurred by the Banking Group. Management fees paid to the Banking Group for the year ended 30 September 2016 were $3 million (30 September 2015: $3 million) recorded within management fees received from related entities.

In September 2016, a provision relating to restructuring costs of $9 million (30 September 2015: $8 million) was raised, $2 million (30 September 2015: $3 million) of which has been settled during the year (refer to Note 21). The Ultimate Parent Bank will ultimately bear the cost of this restructuring provision and therefore the provision does not impact the Banking Group's income statement. Consequently, the Banking Group has recorded a receivable of $7 million (30 September 2015: $8 million) within due from related entities.

Transactions with other controlled entities of the Ultimate Parent Bank

Management fees are paid by members of the Ultimate Parent Bank Group for certain operating costs incurred by the Banking Group. Management fees paid to the Banking Group for the year ended 30 September 2016 were $9 million (30 September 2015: $4 million) recorded within management fees received from related entities.

Managed fund products are sold by the Banking Group on behalf of members of the Ultimate Parent Bank Group. The Banking Group receives distribution fees from these sales. Distribution fees received for the year ended 30 September 2016 were $12 million (30 September 2015: $10 million) recorded within transaction fees and commissions.

Life and general insurance products are sold by the Banking Group on behalf of other members of the Ultimate Parent Bank Group. The Banking Group receives distribution fees on these sales. Life and general insurance distribution fees received for the year ended 30 September 2016 were $27 million and $15 million respectively from Westpac Life-NZ- Limited (30 September 2015: $26 million and $15 million respectively) recorded within transaction fees and commissions.

BTNZ holds a 32-day deposit placement with the Banking Group as part of its cash management activities. Interest paid on these deposits included in interest expense-other amounted to $1 million for the year ended 30 September 2016 (30 September 2015: $2 million).

Refer to Note 23 for details of the subordinated notes issued by the Banking Group which are held by related entities. Interest expense paid on the subordinated notes amounted to $57 million for the year ended 30 September 2016 (30 September 2015: $4 million).

Refer to Note 24 for the details of share capital transactions and dividend payments made by the Bank to its immediate parent company, WNZGL.

Due from and to related entities

	The Banking Group	
$ millions	**2016**	2015
Due from related entities		
Parent companies[1]	**1,749**	2,577
Other members of the Ultimate Parent Bank Group	**11**	10
Total due from related entities	**1,760**	2,587
Due from related entities at amortised cost	**1,282**	1,438
Due from related entities at fair value	**478**	1,149
Total due from related entities	**1,760**	2,587
Amounts expected to be recovered within 12 months	**1,672**	2,512
Amounts expected to be recovered after 12 months	**88**	75
Total due from related entities	**1,760**	2,587
Due to related entities		
Parent companies[1]	**3,134**	3,360
Other members of the Ultimate Parent Bank Group	**36**	45
Total due to related entities	**3,170**	3,405
Due to related entities at amortised cost	**2,191**	2,846
Due to related entities at fair value	**979**	559
Total due to related entities	**3,170**	3,405
Amounts expected to be settled within 12 months	**1,479**	2,965
Amounts expected to be settled after 12 months	**1,691**	440
Total due to related entities	**3,170**	3,405

[1] Parent companies include the Ultimate Parent Bank (including the NZ Branch) and all intermediate parent companies of the Bank.

Note 25 Related entities (continued)

Other group investment

The Banking Group had a significant non-controlling shareholding in the following New Zealand based entity as at 30 September 2016:

Name	Shares held by	Beneficial Interest	Nature of Business
Payments NZ Limited	Westpac New Zealand Limited	23% (2015: 23%)	Payment Rules

The Banking Group does not have significant influence over this entity, and therefore, it is not classified as an associate.

The total carrying amount of the Banking Group's significant non-controlling shareholding in the above investment, and its contribution to the results of the Banking Group, is not material either individually or in aggregate.

Note 26 Derivative financial instruments

Accounting policy

Derivative financial instruments are instruments whose values derive from the value of an underlying asset, reference rate or index and include forwards, futures, swaps and options.

All derivatives are held at fair value. Changes in fair value are recognised in the income statement, unless designated in a cash flow hedge relationship. Derivatives are presented as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative. Derivatives with related parties are included in due from/due to related entities.

The Banking Group uses derivative instruments as part of its asset and liability risk management activities, which are discussed in Note 36: Risk management. Derivatives used for risk management activities includes designating derivatives into one of two types of hedge accounting relationships: fair value hedge or cash flow hedge, where permitted under NZ IAS 39. These hedge designations and associated accounting treatment are as follows:

Fair value hedges

Fair value hedges hedge the exposure to changes in the fair value of an asset or liability.

- Changes in the fair value of derivatives and the hedged asset or liability in fair value hedges are recognised in net interest income. The carrying value of the hedged asset or liability is adjusted for the changes in fair value.
- If a hedge is discontinued, any fair value adjustments to the carrying value of the asset or liability are amortised to net interest income over the period to maturity. If the asset or liability is sold, any unamortised adjustment is immediately recognised in the income statement.

Cash flow hedges

Cash flow hedges hedge the exposure to variability of cash flows attributable to an asset, liability or future forecast transaction.

- For effective hedges, changes in the fair value of derivatives are recognised in the cash flow hedge reserve through other comprehensive income and subsequently recognised in net interest income when the asset or liability that was hedged impacts the income statement.
- For hedges with some ineffectiveness, the changes in the fair value of the derivatives relating to the ineffective portion are immediately recognised in the income statement.
- If a hedge is discontinued, any cumulative gain or loss remains in other comprehensive income and is subsequently amortised to net interest income over the period which the asset or liability that was hedged also impacts the income statement.
- If a hedge of a forecast transaction is no longer expected to occur, any cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

Fair value hedges

The Banking Group hedges a proportion of its interest rate risk and foreign exchange risk from debt issuances and fixed interest rate assets with single currency and cross currency swaps and forwards.

	The Banking Group	
$ millions	**2016**	2015
Change in fair value of hedging instruments	**20**	(283)
Change in fair value of hedged items attributed to hedged risk	**(19)**	285
Fair value hedge ineffectiveness	**1**	2

Cash flow hedges

The Banking Group hedges a portion of the cash flows from floating-rate customer deposits, term deposits and floating rate loans using interest rate swaps. The Banking Group also hedges exposure to foreign currency principal and interest cash flows from floating-rate medium-term debt, covered bonds and subordinated notes through the use of cross currency swaps.

Underlying cash flows from cash flow hedges, as a proportion of total cash flows, are expected to occur in the following periods:

	The Banking Group 2016							
%	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years
Cash inflows (assets)	**-**	**3**	**20**	**13**	**16**	**15**	**22**	**11**
Cash outflows (liabilities)	**-**	**3**	**20**	**14**	**16**	**16**	**21**	**10**

Note 26 Derivative financial instruments (continued)

%	The Banking Group 2015 Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years
Cash inflows (assets)	-	-	24	24	17	18	5	12
Cash outflows (liabilities)	-	-	26	24	16	17	5	12

$ millions	The Banking Group 2016	2015
Cash flow hedge ineffectiveness	**4**	(6)

Dual fair value and cash flow hedges

The Banking Group hedges fixed rate foreign currency denominated medium-term debt and covered bonds using cross currency swaps, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

Derivatives held with external counterparties

The notional amount and fair value of derivative financial instruments held for trading and designated in hedge relationships are set out in the following tables:

The Banking Group 2016									
		Fair Value							
				Hedging					
	Notional	**Trading**		**Fair Value**		**Cash Flow**		**Total**	
$ millions	**Amount**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**	**Assets**	**(Liabilities)**
Interest rate contracts									
Swaps	**4,071**	**2**	**-**	**28**	**(232)**	**-**	**-**	**30**	**(232)**
Options	**927**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total interest rate contracts	**4,998**	**2**	**-**	**28**	**(232)**	**-**	**-**	**30**	**(232)**
Foreign exchange contracts									
Cross currency swaps	**7,294**	**-**	**-**	**89**	**75**	**11**	**(727)**	**100**	**(652)**
Total foreign exchange contracts	**7,294**	**-**	**-**	**89**	**75**	**11**	**(727)**	**100**	**(652)**
Total of gross derivatives	**12,292**	**2**	**-**	**117**	**(157)**	**11**	**(727)**	**130**	**(884)**
Impact of netting arrangements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total of net derivatives	**12,292**	**2**	**-**	**117**	**(157)**	**11**	**(727)**	**130**	**(884)**
Amounts expected to be settled within 12 months								**2**	**(240)**
Amounts expected to be settled after 12 months								**128**	**(644)**
Total derivatives held with external counterparties								**130**	**(884)**

The Banking Group 2015									
		Fair Value							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Swaps	3,742	4	-	19	(193)	-	-	23	(193)
Total interest rate contracts	3,742	4	-	19	(193)	-	-	23	(193)
Foreign exchange contracts									
Cross currency swaps	7,357	-	-	96	3	499	(13)	595	(10)
Total foreign exchange contracts	7,357	-	-	96	3	499	(13)	595	(10)
Total of gross derivatives	11,099	4	-	115	(190)	499	(13)	618	(203)
Impact of netting arrangements	-	-	-	-	-	-	-	-	-
Total of net derivatives	11,099	4	-	115	(190)	499	(13)	618	(203)
Amounts expected to be settled within 12 months								36	(5)
Amounts expected to be settled after 12 months								582	(198)
Total derivatives held with external counterparties								618	(203)

Note 26 Derivative financial instruments (continued)

Derivatives held with related entities

	The Banking Group 2016								
		Fair Value							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Forwards	**2,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Swaps	**24,808**	**-**	**(1)**	**-**	**(200)**	**90**	**(213)**	**90**	**(414)**
Total interest rate contracts	**27,308**	**-**	**(1)**	**-**	**(200)**	**90**	**(213)**	**90**	**(414)**
Foreign exchange contracts									
Cross currency swaps	**5,312**	**2**	**(109)**	**-**	**42**	**-**	**(415)**	**2**	**(482)**
Total foreign exchange contracts	**5,312**	**2**	**(109)**	**-**	**42**	**-**	**(415)**	**2**	**(482)**
Total of gross derivatives	**32,620**	**2**	**(110)**	**-**	**(158)**	**90**	**(628)**	**92**	**(896)**
Impact of netting arrangements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total of net derivatives	**32,620**	**2**	**(110)**	**-**	**(158)**	**90**	**(628)**	**92**	**(896)**
Amounts expected to be settled within 12 months								**4**	**(515)**
Amounts expected to be settled after 12 months								**88**	**(381)**
Total derivatives held with related entities								**92**	**(896)**

	The Banking Group 2015								
		Fair Value							
				Hedging					
	Notional	Trading		Fair Value		Cash Flow		Total	
$ millions	Amount	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)	Assets	(Liabilities)
Interest rate contracts									
Swaps	27,814	4	(1)	-	(186)	90	(261)	94	(448)
Total interest rate contracts	27,814	4	(1)	-	(186)	90	(261)	94	(448)
Foreign exchange contracts									
Cross currency swaps	6,318	279	(6)	-	78	3	(179)	282	(107)
Total foreign exchange contracts	6,318	279	(6)	-	78	3	(179)	282	(107)
Total of gross derivatives	34,132	283	(7)	-	(108)	93	(440)	376	(555)
Impact of netting arrangements	**-**	-	**-**	**-**	**-**	**-**	-	-	-
Total of net derivatives	34,132	283	(7)	-	(108)	93	(440)	376	(555)
Amounts expected to be settled within 12 months								301	(115)
Amounts expected to be settled after 12 months								75	(440)
Total derivatives held with related entities								376	(555)

Note 27 Fair value of financial instruments

Accounting policy

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

Critical accounting assumptions and estimates

The majority of valuation models used by the Banking Group employ only observable market data as inputs. However, for certain financial instruments, data may be employed which is not readily observable in current markets.

The availability of observable inputs is influenced by factors such as:

- Product type;
- Depth of market activity;
- Maturity of market models; and
- Complexity of the transaction.

Where unobservable market data is used, more judgment is required to determine fair value. The significance of these judgments depends on the significance of the unobservable input to the overall valuation. Unobservable inputs are generally derived from other relevant market data and adjusted against:

- Industry standards;
- Economic models; and
- Observed transaction prices.

In order to determine a reliable fair value for a financial instrument, management may apply adjustments to the techniques previously described. These adjustments reflect the Banking Group's assessment of factors that market participants would typically consider in setting the fair value.

These adjustments incorporate bid/offer spreads, credit valuation adjustments and funding valuation adjustments.

Fair Valuation Control Framework

The Banking Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

The method of determining fair value differs depending on the information available.

Fair value hierarchy

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

The Banking Group categorises all fair value instruments according to the 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 incorporate credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

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	Available-for-sale securities and trading securities and other financial assets designated at fair value	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 inputs. Valuation techniques include:

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

Note 27 Fair value of financial instruments (continued)

Instrument	Balance sheet category	Includes:	Valuation technique
Interest rate derivatives	Derivative financial instruments	Interest rate swaps, forwards and options	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 such as Bank Bill Mid-Market Settlement Rate ('**BKBM**') and active broker quoted interest rates in the swaps, bonds and futures markets. Interest rate volatilities are sourced through a consensus data provider.
Foreign exchange products	Derivative financial instruments	Cross currency swaps	Derived from market observable inputs or consensus pricing providers using industry standard models.
Non-asset backed debt instruments	Trading securities and other financial assets designated at fair value	Local authority and NZ public securities, other bank issued certificates of deposit, commercial paper, other government securities and corporate bonds	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices.
	Available-for-sale securities Other financial liabilities at fair value through income statement	Security repurchase agreements with related parties and reverse repurchase agreements over non-asset backed debt securities with related and third parties	
Deposits 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	Debt issues	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 the Bank.

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.

There are no financial instruments included in the Level 3 category (30 September 2015: nil).

The following table summarises the attribution of financial instruments to the fair value hierarchy based on the measurement basis after initial recognition:

	The Banking Group							
	2016				2015			
$ millions	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Trading securities and other financial assets designated at fair value	**478**	**1,650**	**-**	**2,128**	-	2,085	-	2,085
Derivative financial instruments	**-**	**130**	**-**	**130**	-	618	-	618
Available-for-sale securities	**1,608**	**2,182**	**-**	**3,790**	1,619	1,802	-	3,421
Due from related entities	**-**	**478**	**-**	**478**	-	1,149	-	1,149
Total financial assets carried at fair value	**2,086**	**4,440**	**-**	**6,526**	1,619	5,654	-	7,273
Financial liabilities								
Deposits and other borrowings at fair value	**-**	**1,250**	**-**	**1,250**	-	1,070	-	1,070
Other financial liabilities at fair value through income statement	**-**	**400**	**-**	**400**	-	-	-	-
Derivative financial instruments	**-**	**884**	**-**	**884**	-	203	-	203
Debt issues at fair value	**-**	**2,410**	**-**	**2,410**	-	2,716	-	2,716
Due to related entities	**-**	**979**	**-**	**979**	-	559	-	559
Total financial assets carried at fair value	**-**	**5,923**	**-**	**5,923**	-	4,548	-	4,548

Analysis of movements between Fair Value Hierarchy Levels

During the year there were no material transfers between levels of the fair value hierarchy (30 September 2015: nil).

Note 27 Fair value of financial instruments (continued)

Financial instruments not measured at fair value

For financial instruments not carried at fair value on a recurring basis on the balance sheet, including amounts due from and due to related entities, fair value has been derived as follows:

Instrument	Valuation technique
Loans	Where available, the fair value of loans is based on observable market transactions; otherwise fair value is estimated using discounted cash flow models. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.
Deposits and other borrowings	Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.
Debt issues and subordinated notes	Fair values are calculated using a discounted cash flow model. The discount rates applied reflect the terms of the instruments, the timing of the estimated cash flows and are adjusted for any changes in the applicable credit spreads.
All other financial assets and financial liabilities	For all other financial assets and financial liabilities, the carrying value approximates the fair value. These items are either short-term in nature or re-price frequently, and are of a high credit rating.

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

	The Banking Group 2016				
	Carrying	Fair Value			
$ millions	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Cash and balances with central banks	**1,418**	**1,418**	**-**	**-**	**1,418**
Due from other financial institutions	**720**	**720**	**-**	**-**	**720**
Loans	**75,172**	**-**	**-**	**75,417**	**75,417**
Due from related entities	**1,282**	**-**	**1,271**	**11**	**1,282**
Other assets	**168**	**-**	**-**	**168**	**168**
Total financial assets carried at amortised cost	**78,760**	**2,138**	**1,271**	**75,596**	**79,005**
Financial liabilities					
Due to other financial institutions	**15**	**15**	**-**	**-**	**15**
Deposits and other borrowings	**57,541**	**-**	**57,070**	**527**	**57,597**
Debt issues	**12,317**	**-**	**12,473**	**-**	**12,473**
Due to related entities	**2,191**	**-**	**2,210**	**-**	**2,210**
Other liabilities	**410**	**-**	**410**	**-**	**410**
Subordinated notes	**1,091**	**-**	**-**	**1,111**	**1,111**
Total financial liabilities carried at amortised cost	**73,565**	**15**	**72,163**	**1,638**	**73,816**

	The Banking Group 2015				
	Carrying	Fair Value			
$ millions	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and balances with central banks	857	857	-	-	857
Due from other financial institutions	18	18	-	-	18
Loans	69,155	-	-	69,335	69,335
Due from related entities	1,438	-	1,428	10	1,438
Other assets	182	-	-	182	182
Total financial assets carried at amortised cost	71,650	875	1,428	69,527	71,830
Financial liabilities					
Due to other financial institutions	490	487	3	-	490
Deposits and other borrowings	51,916	-	51,542	470	52,012
Debt issues	11,969	-	12,038	-	12,038
Due to related entities	2,846	-	2,874	-	2,874
Other liabilities	412	-	412	-	412
Subordinated notes	1,143	-	1,143	-	1,143
Total financial liabilities carried at amortised cost	68,776	487	68,012	470	68,969

Note 28 Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and liabilities are presented net on the balance sheet when the Banking Group has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported on the balance sheet are disclosed in the table below.

Some of the Banking Group's offsetting arrangements are not enforceable in all circumstances. The assets and liabilities under such agreements are also disclosed in the table below, to illustrate the net balance sheet amount if these future events should occur. The amounts in the tables below may not tie back to the balance sheet if there are balances which are not subject to offsetting arrangements. The amounts presented in this note do not represent the credit risk exposure of the Banking Group. Refer to Note 36.1 for information on credit risk management. The offsetting and collateral arrangements and other credit risk mitigation strategies used by the Banking Group are further explained in the 'Credit risk' section under Note 36.1.

	The Banking Group 2016						
	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
$ millions	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
Assets							
Derivative financial instruments	**130**	**-**	**130**	**(124)**	**(4)**	**-**	**2**
Due from related entities - securities purchased under agreement to resell[1]	**386**	**-**	**386**	**-**	**-**	**(386)**	**-**
Due from related entities - derivative financial instruments[1]	**92**	**-**	**92**	**(92)**	**-**	**-**	**-**
Total assets	**608**	**-**	**608**	**(216)**	**(4)**	**(386)**	**2**
Liabilities							
Security repurchase agreements [2]	**400**	**-**	**400**	**-**	**-**	**(400)**	**-**
Derivative financial instruments	**884**	**-**	**884**	**(124)**	**(716)**	**-**	**44**
Due to related entities - security repurchase agreeements[3]	**83**	**-**	**83**	**-**	**-**	**(83)**	**-**
Due to related entities - derivative financial instruments[3]	**896**	**-**	**896**	**(92)**	**-**	**-**	**804**
Total liabilities	**2,263**	**-**	**2,263**	**(216)**	**(716)**	**(483)**	**848**

	The Banking Group 2015						
	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
$ millions	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
Assets							
Derivative financial instruments	618	-	618	(155)	(460)	-	3
Due from related entities - securities purchased under agreement to resell[1]	773	-	773	-	-	(773)	-
Due from related entities - derivative financial instruments[1]	376	-	376	(376)	-	-	-
Total assets	1,767	-	1,767	(531)	(460)	(773)	3
Liabilities							
Security repurchase agreements[2]	-	-	-	-	-	-	-
Derivative financial instruments	203	-	203	(155)	(18)	-	30
Due to related entities - security repurchase agreements[3]	4	-	4	-	-	(4)	-
Due to related entities - derivative financial instruments[3]	555	-	555	(376)	-	-	179
Total liabilities	762	-	762	(531)	(18)	(4)	209

1 Forms part of due from related entities on the balance sheet (refer to Note 25).
2 Presented as other financial liabilities at fair value through income statement on the balance sheet.
3 Forms part of due to related entities on the balance sheet (refer to Note 25).

Note 28 Offsetting financial assets and financial liabilities (continued)

Other recognised financial instruments

These financial assets and liabilities are subject to master netting agreements which are not enforceable in all circumstances, so they are recognised gross on the balance sheet. The offsetting rights of the master netting arrangements can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Cash collateral and financial instrument collateral

These amounts are received or pledged under master netting arrangements against the gross amounts of assets and liabilities. Financial instrument collateral typically comprises securities which can be readily liquidated in the event of counterparty default. The offsetting rights of the master netting arrangement can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Note 29 Contingent liabilities, contingent assets and credit commitments

	The Banking Group	
$ millions	**2016**	**2015**
Commitments for capital expenditure		
Due within one year	**3**	2
Lease commitments[1]		
One year or less	**57**	58
Between one and five years	**141**	146
Over five years	**16**	34
Total lease commitments	**214**	238
Undrawn credit commitments		
Letters of credit and guarantees[2]	**818**	854
Commitments to extend credit[3]	**23,932**	23,791
Other commitments	**-**	40
Total undrawn credit commitments	**24,750**	24,685

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

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

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

Undrawn credit commitments

The Banking Group enters into various arrangements with customers which are only recognised on the balance sheet when called upon. These arrangements include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

They expose the Banking Group to liquidity risk when called upon and also to credit risk if the customer fails to repay the amounts owed at the due date. The maximum exposure to credit loss is the contractual or notional amount of the instruments disclosed above. Some of the arrangements can be cancelled by the Banking Group at any time and a significant portion is expected to expire without being drawn. The actual required liquidity and credit risk exposure is therefore less than the amounts disclosed. The Banking Group uses the same credit policies when entering into these arrangements as it does for on-balance sheet instruments. Refer to Note 36 for further details of liquidity risk and credit risk management.

The Banking Group is obliged to repurchase any loan sold to and:

(a) held by WNZSL (pursuant to its securitisation programme) where the loan does not meet certain terms and conditions of the WNZSL securitisation programme;

(b) held by WNZCBL (pursuant to the CB Programme) where:

   (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);

   (ii) the loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of the loan; or

   (iii) at the cut-off date relating to the loan, there were arrears of interest and that loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the loan.

It is not envisaged that any liability resulting in material loss to the Banking Group will arise from these obligations.

Guarantees

In addition, WNZCBL guarantees covered bonds issued by WSNZL (refer to Note 12 for further details).

Other contingent liabilities

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

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

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

Note 29 Contingent liabilities, contingent assets and credit commitments (continued)

Westpac (NZ) Investments Limited ('**WNZIL**'), a subsidiary of the Bank, leases the majority of the properties occupied by the Bank. As is normal practice, the lease agreements contain 'make good' provisions which require WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 30 September 2016 was estimated to be $31 million (30 September 2015: $32 million).

No amount has been recognised for the $31 million in estimated maximum vacation payments as the Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Guarantees

As disclosed in Note 25, the Bank has an agreement with NZ Branch whereby the Bank will reimburse the NZ Branch for any credit losses incurred by it due to certain customers of the Bank defaulting on certain financial market and international products.

Note 30 Segment information

Accounting policy

Operating segments are presented on a basis that is consistent with information provided internally to the Banking Group's chief operating decision-makers and reflects the management of the business, rather than the legal structure of the Banking Group. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Banking Group has determined that the Bank's executive team is its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated at head office. Income and expenses directly associated with each segment are included in determining business segment performance.

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

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

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

Comparative information for the year ended 30 September 2015 has been restated following a change to the Banking Group's operating segments in the current reporting period. The change has been made to allocate head office operating expenses and net internal interest expense to the Banking Group's operating segments. Comparative information has been restated to ensure consistent presentation with the current reporting period.

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

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

Reconciling items primarily represent:

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

Note 30 Segment information (continued)

$ millions	The Banking Group Consumer Banking and Wealth	Commercial, Corporate and Institutional	Investments and Insurance	Reconciling Items	Total
Year ended 30 September 2016					
Net interest income/(expense)	**1,001**	**713**	**(4)**	**34**	**1,744**
Non-interest income	**194**	**142**	**128**	**(64)**	**400**
Net operating income	**1,195**	**855**	**124**	**(30)**	**2,144**
Net operating income from external customers	**1,632**	**1,259**	**129**	**(876)**	**2,144**
Net internal interest expense	**(437)**	**(404)**	**(5)**	**846**	**-**
Net operating income	**1,195**	**855**	**124**	**(30)**	**2,144**
Operating expenses	**(664)**	**(220)**	**(32)**	**9**	**(907)**
Impairment charges on loans	**(33)**	**(15)**	**-**	**(11)**	**(59)**
Profit before income tax expense	**498**	**620**	**92**	**(32)**	**1,178**
Total gross loans	**41,327**	**34,219**	**-**	**61**	**75,607**
Total deposits	**32,686**	**24,855**	**-**	**1,250**	**58,791**
Year ended 30 September 2015					
Net interest income/(expense)	975	681	(8)	142	1,790
Non-interest income	195	166	120	(82)	399
Net operating income	1,170	847	112	60	2,189
Net operating income from external customers	1,541	1,267	120	(739)	2,189
Net internal interest expense	(371)	(420)	(8)	799	-
Net operating income	1,170	847	112	60	2,189
Operating expenses	(627)	(203)	(30)	(28)	(888)
Impairment (charges)/recoveries on loans	(27)	(21)	-	1	(47)
Profit before income tax expense	516	623	82	33	1,254
Total gross loans	38,225	31,294	-	51	69,570
Total deposits	31,153	20,763	-	1,070	52,986

Note 31 Superannuation commitments

Accounting policy

Retirement benefit obligations

The Banking Group recognises an asset or a liability for its defined benefit scheme, being the net of the defined benefit obligations and the fair value of the scheme's assets. The defined benefit obligation is calculated as the present value of the estimated future cash flows, discounted using blended interest rates of government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent actuary using the projected unit credit method. The carrying value of the retirement benefit obligation is disclosed as part of Note 22.

The superannuation expense is recognised in operating expenses and re-measurements are recognised through other comprehensive income.

Critical accounting assumptions and estimates

The actuarial valuation of plan obligations is dependent upon a series of assumptions, principally price inflation, salary growth, mortality, morbidity, discount rate and investment returns. Different assumptions could significantly alter the valuation of the plan assets and obligations and the superannuation cost recognised in the income statement and other comprehensive income.

The Banking Group operates a defined benefit superannuation scheme for staff in New Zealand. The scheme has been closed to new members since 1 April 1990. Contributions, as specified in the rules of the scheme, are made by the Banking Group based on the funding valuation performed annually. The last actuarial assessment of the funding status was undertaken on 30 June 2014. Contributions to the defined benefit scheme are at a rate sufficient to keep the scheme solvent, and contributions are currently being made to the defined benefit scheme at the rate of 12% (before employer's superannuation contribution tax) of members' salaries.

The Banking Group has no material obligations in respect of post-retirement benefits other than pensions.

The table below details the primary actuarial assumptions used in the calculations of the defined benefit scheme obligation:

	The Banking Group	
%	2016	2015
Primary actuarial assumptions used		
Discount rate	**2.3**	3.3
Rate of increase in salaries	**3.0**	3.0
Rate of increase for pensions	**2.0**	2.2
Asset allocation		
Australasian Equity	**15.0**	15.4
International Equity	**33.2**	27.3
Fixed Income	**31.4**	32.3
Property & Infrastructure	**10.1**	9.8
Other	**1.8**	5.4
Cash	**8.5**	9.8
Total asset allocation	**100.0**	100.0

Note 32 Key management personnel

Key management personnel compensation

Key management personnel are defined as the Directors and senior management of the Banking Group. The information disclosed relating to the key management personnel includes transactions with those individuals, their close family members and their controlled entities.

	The Banking Group	
$'000s	Year Ended 30-Sep-16	Year Ended 30-Sep-15
Salaries and other short-term benefits	**9,510**	9,322
Post-employment benefits	**455**	502
Other termination benefits	**-**	758
Share-based payments	**2,405**	2,048
Total key management personnel compensation	**12,370**	12,630
Loans to key management personnel	**17,388**	26,302
Deposits from key management personnel	**1,132**	1,619
Interest income on amounts due from key management personnel	**702**	445
Interest expense on amounts due to key management personnel	**36**	61

The Directors have received remuneration from the Banking Group and these amounts are included in the table above.

Loans and deposits with key management personnel

All loans and deposits are made in the ordinary course of business of the Banking Group, on an arm's length basis and on normal commercial terms and conditions. Loans are on terms that range between variable, fixed rate up to five years and interest only loans, all of which are in accordance with the Banking Group's lending policies.

As at 30 September 2016, no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2015: nil).

Note 32 Key management personnel (continued)

Other key management personnel transactions

All other transactions with key management personnel, their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

Note 33 Structured entities, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Accounting policy

Structured entities are generally created to achieve a specific, defined objective and their operations are restricted such as only purchasing specific assets. Structured entities are commonly financed by debt or equity securities that are collateralised by and/or indexed to their underlying assets. The debt and equity securities issued by structured entities may include tranches with varying levels of subordination.

Structured entities are classified as subsidiaries and consolidated if they meet the accounting policy set out in Note 1. If the Banking Group does not control a structured entity then it will not be consolidated.

The Banking Group may have an interest in or sponsor a structured entity but not consolidate it. The details below provide information on both consolidated and unconsolidated structured entities.

The Bank, through its housing loan securitisation programme, sells housing loans (referred to as securitised loans) to a controlled entity and that controlled entity sells residential mortgage-backed securities to investors. Securitised loans that do not qualify for derecognition and the associated funding are included in loans and debt issues respectively.

Consolidated structured entities

Securitisation

In October 2008, WNZSL was set up as part of the Bank's internal residential mortgage-backed securitisation programme. Under this programme the Bank sold the rights (but not the obligations) of a pool of housing loans to WNZSL. The purchase was funded by WNZSL's issuance of residential mortgage-backed securities ('**RMBS**'). These RMBS are currently held by the Bank and are included in its due from related entities. The housing loans were not derecognised from the Bank's separate financial statements in accordance with the accounting policies set out in Note 1. Accordingly, an equivalent amount of liabilities associated with the transferred rights of the pool of housing loans is recognised (in the form of a 'deemed loan' from WNZSL). The RMBS and the liability to WNZSL are fully eliminated in the Banking Group's financial statements. Refer to Note 29 for a description of the Banking Group's obligation to repurchase certain housing loans sold to WNZSL.

The Bank currently has a $5,000 million (30 September 2015: $5,000 million) internal residential mortgage-backed securitisation programme. The most senior rated securities at 30 September 2016 of $4,750 million (30 September 2015: $4,750 million) qualify as eligible collateral for repurchase agreements with the Reserve Bank. Holding a portion of housing loans in securitised format enables the Bank to maintain a readily available source of cash should market conditions become difficult. The Bank takes advantage of the Reserve Bank's guidelines for its overnight reverse repo facility and open market operations, which allows banks in New Zealand to offer RMBS as collateral for the Reserve Bank's repurchase agreements.

Covered bonds

The Banking Group has a covered bond programme whereby selected pools of housing loans it originates are assigned to a bankruptcy remote structured entity. WNZCBL is a special purpose entity established to purchase from time to time, and hold the rights, but not the obligations of a pool of housing loans ('**cover pool**') and to provide a financial guarantee (in addition to that of the Bank) in respect of obligations under the covered bonds issued from time to time by WSNZL under the CB Programme. That financial guarantee is supported by WNZCBL granting security in favour of the covered bondholders over the cover pool.

The cover pool is comprised of housing loans up to a value of $7,500 million as at 30 September 2016 (30 September 2015: $5,500 million). The intercompany loan made by the Bank to WNZCBL to fund the initial purchase (and subsequent further purchases which increased the cover pool) is included in the Bank's due from related entities. The housing loans purchased by WNZCBL were not derecognised from the Bank's separate financial statements (and therefore the Bank and the Banking Group recognises these housing loans) in accordance with the accounting policies outlined in Note 1. For this reason, the Bank recognises a liability owed to WNZCBL (in the form of a 'deemed loan' from WNZCBL) of an amount equivalent to the sum of the value of the housing loans, cash and unpaid accrued interest arising from, and in respect of, the housing loans and the asset performance fee, and is included in the Bank's due to related entities. The intercompany loan made by the Bank to WNZCBL and the liability representing the deemed loan from WNZCBL to the Bank are fully eliminated in the Banking Group's financial statements.

Over time, the composition of the cover pool will include, in addition to 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). As at 30 September 2016, the assets of WNZCBL were $7,521 million (30 September 2015: $5,520 million), comprising housing loans, accrued interest and cash.

Funds managed by a member of the Ultimate Parent Bank Group

As disclosed in Note 25 and the 'Funds management and fiduciary activities' section, the PIE Funds are consolidated within the financial statements of the Banking Group.

Non-contractual financial support

The Banking Group does not provide non-contractual financial support to these consolidated structured entities.

Note 33 Structured entities, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products (continued)

Unconsolidated structured entities

As at 30 September 2016, the Banking Group had securitised housing loans amounting to $62 million (30 September 2015: $85 million), which had been sold by the Banking Group to external parties being the Westpac Home Loan Trust ('**HLT**') and the Westpac Mortgage Investment Fund ('**MIF**') via HLT.

HLT and MIF were established pursuant to trust deeds between BTNZ and The New Zealand Guardian Trust Company Limited ('**NZGT**'), as trustee for HLT and MIF, and were designed to enable investors to obtain investment exposure to housing loans. The purchase of these housing loans has been funded with the proceeds of units subscribed for, and issued to, retail investors in New Zealand. The Banking Group receives fees for various services provided to HLT and MIF on standard commercial terms, including servicing fees. These fees are recognised over the financial periods in which the costs are borne. The securitised assets have been derecognised from the financial statements of the Banking Group as the risks and rewards of the assets have been substantially transferred to external parties. Pursuant to the terms of the servicing agreements for HLT and MIF, any cash collected by the Bank in respect of the securitised assets is held on behalf of NZGT, as trustee for HLT and MIF until the relevant monthly payment date when this cash is paid to NZGT. As at 30 September 2016, the amount so held by the Bank was $0.5 million (30 September 2015: $1 million). As at 3 October 2016, securitised housing loans which had been sold to external parties HLT and MIF amounting to $62 million were re-purchased by the Banking Group at fair value and will be subsequently recognised in the financial statements of the Banking Group from this date.

In addition to the above, the Banking Group has interests in various unconsolidated structured entities including debt or equity instruments, guarantees, liquidity and other credit support arrangements, lending, loan commitments and certain derivatives.

Interests exclude non-complex derivatives (e.g. interest rate or currency swaps), instruments that create, rather than absorb, variability in the entity (e.g. credit protection under a credit default swap), and lending to a structured entity with recourse to a wider operating entity, not just the structured entity.

The main types of interests held by the Banking Group in other unconsolidated structured entities, not disclosed elsewhere in these financial statements, generally comprise loans and other credit commitments. The Banking Group provides lending facilities to other unconsolidated structured entities, in the normal course of its lending business to earn income in the form of interest and lending fees. The other unconsolidated structured entities mainly comprise securitisation vehicles originated or sponsored by third parties, where the primary source of debt service, security and repayment is derived from the underlying assets of the entity, and investment funds. All loans and credit commitments are subject to the Banking Group's credit approval process with collateral specific to the circumstances of each loan. The carrying amount of loans (net of provisions) recognised on the balance sheet and off-balance sheet commitments relating to interest in other unconsolidated structured entities amounted to $2,228 million and $946 million respectively (30 September 2015: $1,215 million and $854 million respectively). The maximum exposure to loss is the Banking Group's total committed exposure to these entities of $3,174 million as at 30 September 2016 (30 September 2015: $2,069 million). This amount represents the size of the structured entities as the information on the total assets of the entities is not available to the Banking Group.

Non-contractual financial support

The Banking Group does not provide non-contractual financial support to these unconsolidated structured entities.

Funds management and other fiduciary activities

The Bank markets the products of BTNZ, a member of the Ultimate Parent Bank Group, through its branches, advisory network and private bank. The Bank derives distribution fees from the sale of managed fund products, superannuation and unit trusts marketed on behalf of BTNZ. The Bank also provides investment advice to a number of clients, which includes the provision of other fiduciary activities.

The PIE Funds are administered by the Banking Group (refer to Note 25 for further details) and invest in deposits with the Bank. The Bank is considered to control the PIE Funds, and as such they are consolidated within the financial statements of the Banking Group. As at 30 September 2016, $2,593 million (30 September 2015: $2,359 million) of funds under management were invested by the PIE Funds in the Bank's deposits.

Marketing and distribution of insurance products

The Bank markets and distributes both life and general insurance products. The life insurance products are underwritten by Westpac Life-NZ-Limited, a member of the Ultimate Parent Bank Group, and by external third party insurance companies. The general insurance products are fully underwritten by external third party insurance companies. Disclosures are made in marketing material that the products are underwritten by those companies and that the Bank does not guarantee the obligations of, or any products issued by, those companies.

Risk management

The Banking Group's risk management strategy (refer to Note 36) will help minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the year ended 30 September 2016:

- financial services provided by any member of the Banking Group to entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities described above, or on whose behalf insurance products are marketed or distributed, have been provided on arm's length terms and conditions and at fair value; and
- assets purchased by any member of the Banking Group from entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities specified above, or on whose behalf insurance products are marketed or distributed, have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding provided to entities

During the year ended 30 September 2016, the Banking Group did not provide any funding to entities conducting funds management and other fiduciary activities, or insurance product marketing and distribution activities described in this note (30 September 2015: nil).

Note 34 Insurance business

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

Note 35 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 BS2B issued by the Reserve Bank.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('**BCBS**') and adopted by the Reserve Bank in supervising the Banking Group.

During the year ended 30 September 2016, the Banking Group complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group complies with the regulatory capital requirements prescribed by the Reserve Bank, maintains strong credit ratings and holds a strong capital position in order to support its business objectives and maximise shareholders' value.

The Banking Group manages its capital structure and makes adjustments to this in light of changing economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Banking Group may adjust the amount of dividend payments to shareholders, reduce discretionary expenditure, return/issue capital to shareholders or issue capital securities.

The Banking Group paid dividends of $660 million on the ordinary shares (refer to Note 24) during the year ended 30 September 2016.

No changes were made in the objectives, policies and processes during the year ended 30 September 2016.

Three independent processes, undertaken by Directors and senior management of the Bank, are designed to manage the Banking Group's capital adequacy to support its current and future activities:

1. The Banking Group actively monitors its capital adequacy as part of the annual Banking Group internal capital adequacy assessment process ('**ICAAP**') and reports this to senior management and the Bank's Board Risk and Compliance Committee. This process supports the Board approved risk appetite statement. This statement outlines the target debt rating, target capital ratios and the degree of earnings volatility that is acceptable. Capital ratios are set at a higher level than required by the regulator, which both reduces the risk of breaching the conditions of registration and provides investor confidence.
2. The Banking Group calculates the capital required to be held for its current risk profile and forecasts the estimated capital position based on expected future activities. The forecast capital required is assessed against the target ranges that have been approved by the Board in regard to capital ratios. The Banking Group also reviews its positions in this process against other stakeholder requirements to ensure capital efficiency.
3. The Ultimate Parent Bank Group takes capital considerations into account during its Board Strategy Review ('**BSR**'). The BSR is an annual process where the current strategic direction of the Ultimate Parent Bank Group is reviewed and refinements are made.

The Banking Group's capital summary (unaudited)

$ millions	The Banking Group 2016
Tier 1 capital	
Common Equity Tier 1 capital	
Paid-up ordinary shares issued by the Bank plus related share premium	3,750
Retained earnings (net of appropriations)	2,886
Accumulated other comprehensive income and other disclosed reserves [1]	(76)
Less deductions from Common Equity Tier 1 capital	
Goodwill	(477)
Other intangible assets [2]	(116)
Cash flow hedge reserve	77
Deferred tax asset deduction	(191)
Expected loss excess over eligible allowance	(227)
Total Common Equity Tier 1 capital	5,626
Additional Tier 1 capital	
Interests arising from ordinary shares issued by fully consolidated subsidiaries and held by third parties	-
Total Tier 1 capital	5,626
Tier 2 capital	
Tier 2 capital instruments (refer to Note 23) [3]	1,092
Revaluation reserves	-
Eligible impairment allowance in excess of expected loss	-
Total Tier 2 capital	1,092
Total capital	6,718

[1] Accumulated other comprehensive income and other disclosed reserves consist of available-for-sale securities reserve and cash flow hedge reserve as disclosed on the balance sheet.
[2] Includes capitalised transaction costs on subordinated notes and debt issues.
[3] Excludes capitalised transaction costs.

Note 35 Capital adequacy (continued)

Capital ratios (unaudited)

The Basel banking accords (the '**Accords**') have been developed and strengthened over time by the BCBS to enhance the banking regulatory framework. The Accords are made up of the different Basel frameworks with the latest being Basel III. Basel III builds on the Basel I and Basel II frameworks, and seeks to improve the banking sector's ability to deal with financial and economic stress, improve risk management and strengthen banks' transparency. The Basel III framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed under the Reserve Bank's Basel III framework in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on BS2B.

	The Banking Group	
%	2016	2015
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	**10.5**	11.1
Tier 1 capital ratio	**10.5**	11.1
Total capital ratio	**12.5**	13.4
Reserve Bank minimum ratios		
Common Equity Tier 1 capital ratio	**4.5**	4.5
Tier 1 capital ratio	**6.0**	6.0
Total capital ratio	**8.0**	8.0
Buffer ratios		
Buffer ratio	**4.5**	5.1
Buffer ratio requirement	**2.5**	2.5

Banking Group Pillar 1 total capital requirement (unaudited)

		2016	
$ millions	Total Exposure After Credit Risk Mitigation	Risk-weighted Exposure or Implied Risk-weighted Exposure	Total Capital Requirement
Credit risk			
Exposures subject to the internal ratings based approach	**96,600**	**40,919**	**3,274**
Equity exposures	**-**	**-**	**-**
Specialised lending subject to the slotting approach	**7,282**	**6,577**	**527**
Exposures subject to the standardised approach	**2,505**	**894**	**71**
Total credit risk[1]	**106,387**	**48,390**	**3,872**
Operational risk	**N/A**	**4,500**	**360**
Market risk	**N/A**	**881**	**71**
Supervisory adjustment	**N/A**	**-**	**-**
Total	**106,387**	**53,771**	**4,303**

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

Solo capital adequacy (unaudited)

For the purposes of calculating the capital adequacy ratios for the Bank on a solo basis, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank or is ultimately owned by the Bank through a chain of ownership where each entity is 100% owned by its parent.

The table below represents the solo capital adequacy calculation based on the Reserve Bank's Basel III framework as contained in BS2B.

	The Bank	
%	2016	2015
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	**8.3**	8.9
Tier 1 capital ratio	**8.3**	8.9
Total capital ratio	**9.9**	10.8

Note 35 Capital adequacy (continued)

Capital for other material risk

Summary of ICAAP (unaudited)

The Banking Group's ICAAP outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements and ensuring that capital held by the Bank is commensurate with its risk profile. The Banking Group's ICAAP complies with the requirements set out in the Reserve Bank document 'Guidelines on a Bank's Internal Capital Adequacy Assessment Process (ICAAP)' (BS12) in accordance with the Bank's Conditions of Registration.

The Banking Group's ICAAP is founded on the principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The ICAAP supplements the minimum regulatory capital requirements in respect of credit, market and operational risk through the consideration of a broader range of risk types and the Banking Group's risk and capital management capabilities. The ICAAP also takes account of future strategic objectives, stress testing, regulatory developments and peer group comparatives.

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

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

	The Banking Group	
$ millions	**2016**	2015
Internal capital allocation		
Other material risk	**71**	108

The Banking Group regularly reviews the methodologies used to calculate its internal capital allocation to other material risks categories. As reported in March 2016, updated methodologies and assumptions have been applied in the Banking Group's assessment of capital allocated to other material risks and this is reflected at 30 September 2016. The comparative information has been restated from $711 million to $108 million for consistency.

Ultimate Parent Bank Group Basel III capital adequacy ratios

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

%	**2016**	2015
Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations)[1, 2]		
Common Equity Tier 1 capital ratio	**9.5**	9.5
Additional Tier 1 capital ratio	**1.7**	1.9
Tier 1 capital ratio	**11.2**	11.4
Tier 2 capital ratio	**1.9**	1.9
Total Regulatory capital ratio	**13.1**	13.3
Ultimate Parent Bank (Extended Licensed Entity)[1, 3]		
Common Equity Tier 1 capital ratio	**9.7**	9.7
Additional Tier 1 capital ratio	**1.9**	2.1
Tier 1 capital ratio	**11.6**	11.8
Tier 2 capital ratio	**2.1**	2.1
Total Regulatory capital ratio	**13.7**	13.9

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

2 Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations) comprises the consolidation of the Ultimate Parent 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 Ultimate Parent Bank.

3 Ultimate Parent Bank (Extended Licensed Entity) comprises the Ultimate Parent 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).

The Ultimate Parent Bank Group is accredited by APRA to apply 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 (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as the Basel III (internal models based approach). With this accreditation the Ultimate Parent Bank 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 Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of this process.

The Ultimate Parent Bank Group (excluding entities specifically excluded by APRA regulations), and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 30 September 2016. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 36 Risk management

General

The Banking Group regards the management of risk to be a fundamental management activity performed at all levels of its business. Effective risk management incorporating a sound risk culture is one of the essential elements of sound risk management. Supporting this approach is a risk management strategy that supports a holistic approach to risk management and sets out minimum standards for risk management across all risk types ('**Risk Management Strategy**').

Risk management strategy and governance

The Board is responsible for determining the Bank's appetite for risk. The Bank is ultimately a subsidiary of the Ultimate Parent Bank and, therefore, a member of the group of companies comprising the Ultimate Parent Bank Group. Accordingly, the Banking Group's Risk Management Strategy is closely aligned with the Ultimate Parent Bank's Risk Management Strategy.

The Board is supported by the Bank's Board Audit Committee ('**Bank's BAC**') and the Bank's Board Risk and Compliance Committee ('**Bank's BRCC**'), which are subcommittees of the Board responsible for monitoring risk management performance and controls across the Banking Group.

The Bank's BAC comprises six Directors of the Bank all of whom are non-executive and of which five are independent. The Bank's BAC assists the Board in fulfilling its responsibilities in relation to external reporting of financial information, internal control of operational risk, the efficiency and effectiveness of audit and compliance with regulatory and statutory reporting requirements. It reviews the interim and annual financial statements, the activities of the Banking Group's internal auditors and monitors the relationship between management and the external auditors.

The Bank's BRCC also comprises six Directors of the Bank all of whom are non-executive and of which five are independent. The Bank's BRCC has power delegated by the Board to set risk appetites and approve frameworks, policies and processes for the management of risk. The Bank's BRCC approves the Risk Management Strategy at least every two years.

The Risk Management Strategy is owned by the Bank's Chief Risk Officer ('**CRO**'). Implementation is achieved through developing risk class frameworks, policies, controls, processes and procedures for identifying and managing risk arising from the Bank's activities.

The Banking Group adopts a Three Lines of Defence approach to risk management which reflects its culture of 'risk is everyone's business' and that all employees are responsible for identifying and managing risk and operating within the Banking Group's desired risk profile. The Banking Group embeds risk culture and maintains an awareness of risk management responsibilities through regular communication, training and other targeted approaches that support its Risk Management Strategy.

The 1st Line of Defence – risk identification, risk management and self-assurance

The Bank's business units and corporate core functions are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

The 2nd Line of Defence – establishment of risk management frameworks and policies and risk management oversight

A separate risk and compliance advisory, control and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. The 2nd Line of Defence may approve risks outside the authorities granted to the 1st Line, and evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, required improvement and monitors the 1st Line progress toward remediation of identified deficiencies.

The 3rd Line of Defence – independent assurance

The audit function independently evaluates, and opines on, the adequacy and effectiveness of the overall risk management framework and controls to the Board and senior executives.

Sound risk management

The Banking Group's core risk principles are the key guidelines for all risk management within the Banking Group. These principles reflect the standards and ideals expressed in the Banking Group's vision, values and code of conduct and are embedded in all levels of risk management policy including rules, procedures and training.

The essential elements of sound risk management include:

- a sound risk culture of 'risk is everyone's business' and awareness of risk management supported by regular communication;
- observable linkages between strategy and risk appetite;
- clearly defined accountabilities, responsibilities and authorities;
- an appropriate level of resources with the capabilities, training and tools (or infrastructure) required to fulfil their responsibilities and support the strategy;
- clearly defined operating structures, reporting lines and governance structures;
- clear principles, goals, objectives and incentives, including risk-adjusted performance measures to support appropriate behaviour and risk and customer outcomes;
- processes and systems that facilitate:
  - risk identification, analysis, evaluation and quantification, including stress testing;
  - risk reward decisions, including appropriate targets and buffers;
  - mitigation and acknowledgement or management of residual risks; and
  - capture and reporting of risk data for both internal and external purposes; and
- assurance processes which include testing to demonstrate that risk-related practices and controls are appropriately embedded and comply with internal, regulatory and legislative requirements.

Risk types

The Bank maintains a risk reward oriented approach to creating shareholder value utilising a range of supporting frameworks covering all material risk classes. The Bank distinguishes between different risk types and takes an integrated approach to managing them. These key risks are:

- Credit risk: the risk of financial loss when a customer or counterparty fails to meet their financial obligations;
- Compliance risk: the risk of legal or regulatory sanction, financial loss or reputation loss arising from the Banking Group's failure to abide by the compliance obligations required of the Banking Group;

Note 36 Risk management (continued)

- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The definition is aligned to the regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic and reputation risk;
- Market risk: the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities; and
- Liquidity risk: the risk that the Bank will be unable to fund assets and meet obligations as they come due.

Additional details surrounding the risk management activities relating to the management of these risks are disclosed below under the relevant headings.

Other risks include:

- Conduct risk: the risk that the Bank's provision of services and products results in unsuitable or unfair outcomes for our customers or undermines market integrity;
- Business risk: the risk associated with the vulnerability of a line of business to changes in the business environment;
- Environmental, social and governance risk: the risk that the Bank damages its reputation or financial performance (or opportunity costs) due to failure to recognise or address material existing or emerging environmental, social or governance factors. It is a risk arising from failure to consider inter-generational sustainability and the Bank's responsibility to manage the impact on its stakeholders;
- Reputation risk: the risk to earnings or capital arising from negative public opinion, resulting from the loss of reputation or public trust and standing; and
- Subsidiary (contagion) risk: the risk that problems arising in other members of the Banking Group may compromise the financial and operational position of the Bank.

Management assurance programme

The Bank has an Executive Risk Committee ('**Bank's RISKCO**') which meets quarterly, and which oversees credit, operational, compliance and reputational risks within the context of the Bank's risk appetite as determined by the Bank's Board, as well as an Asset and Liability Committee ('**Bank's ALCO**') which meets monthly and leads the management of balance sheet risk and oversees market risk, liquidity risk and equity risk within the context of the Bank's risk appetite, as determined by the Bank's Board.

The Banking Group has a management assurance programme designed to identify the key operational and compliance risks, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively. This programme allows senior management to affirm their satisfaction with the quality of the processes under their responsibility and with the effectiveness of the controls that support that assurance. The results of this process are reported to the Bank's RISKCO and to the Bank's BRCC. The Bank's Chief Executive ('**CE**') provides management assurance to the Ultimate Parent Bank Board Risk and Compliance Committee, the Ultimate Parent Bank Board Audit Committee and the CEO of the Ultimate Parent Bank.

This system of management assurance assists the Ultimate Parent Bank's Board in satisfying itself that the Banking Group's risk management systems are adequate, that they operate effectively and that any deficiencies have been identified and are being addressed.

Independent New Zealand Audit unit

The Banking Group has an independent assurance unit ('**New Zealand Audit**') comprised of a New Zealand based audit team, supported by the Ultimate Parent Bank Credit Portfolio Review (including Model Risk) functions, which report to the Bank's BAC, as well as to the Ultimate Parent Bank.

New Zealand Audit, as an independent function, has no direct authority over the activities of management. It has unlimited access to all of the Banking Group's activities, records, property and employees. The scope of responsibility of New Zealand Audit covers systems of management control across all business activities and support functions at all levels of management within the Banking Group. The level of operational risk determines the scope and frequency of individual audits. The Head of New Zealand Audit reports on a quarterly basis, or more often as deemed appropriate, to the Bank's BAC, to agree the budget and the annual audit plan and to report its findings. In addition, the Bank's BAC has private sessions with the Head of New Zealand Audit. Furthermore, the Head of New Zealand Audit reports to the Chair of the Bank's BAC, and for administrative purposes to the Bank's Chief Financial Officer ('**CFO**') and the Ultimate Parent Bank's General Manager Group Audit.

Reviews in respect of risk management systems

New Zealand Audit participates in the six monthly management assurance programme in order to assess the adequacy of the governance framework supporting operational risk management.

The Ultimate Parent Bank Group Audit's Credit Portfolio Review function has a rolling programme of credit and model risk reviews throughout the financial year. New Zealand Audit, with support from the Ultimate Parent Bank's Group Audit unit, also periodically reviews the Bank's Operational, Compliance, Market, Funding and Liquidity Risk Frameworks.

The reviews discussed above in this section are not conducted by a party which is external to the Banking Group or the Ultimate Parent Bank, though they are independent and have no direct authority over the activities of management.

36.1 Credit risk

Credit risk is the risk of financial loss resulting from the failure of customers or counterparties to fully honour the terms and conditions of a contract with the Banking Group. It arises from the Banking Group's lending activities and from interbank, treasury and international trade activities.

Credit risk management

The Banking Group is responsible for implementing and operating within established risk management frameworks and policies and has adapted the Ultimate Parent Bank Group's credit risk policy to the Banking Group's customer and product set. Accordingly, the Banking Group has its own credit manuals and delegated approval authorities which are approved by the Ultimate Parent Bank Group.

The Banking Group monitors its portfolio to guard against the development of risk concentrations. This process allows the Banking Group's credit risk to be well diversified throughout the New Zealand economy. The Banking Group has established separate reporting and prudential limits for borrowings that can be accessed by a single customer group. These limits apply to both borrowing equivalents and settlement risk. Separate limits apply to corporates, governments, financial institutions and banks and are scaled by risk grade. Any excesses of limits are reported quarterly to the Bank's BRCC, along with a reason for the excess.

Note 36 Risk management (continued)

All business units produce regular delinquency reports that detail excesses and delinquency positions. These reports trigger appropriate remedial action consistent with risk management procedures aligned to credit approval authority. Delinquency reporting is used to monitor portfolio performance, origination policies and credit decision-making.

Credit policies with group-wide implications are owned by the Group Risk division of the Ultimate Parent Bank ('**Ultimate Parent Bank Group Risk**') and approved by the Ultimate Parent Bank Group Credit Risk Committee. Compliance with these policies is administered locally.

Ultimate Parent Bank Group Risk establishes and maintains the group-wide credit risk management framework, policies and risk concentration limits which incorporate sound credit risk management practices, reflect approved risk appetite and strategy and meet relevant regulatory and legislative obligations. Within these boundaries the Banking Group has its own credit approval limits approved by the Bank's Board and delegated by the Ultimate Parent Bank Group Chief Risk Officer. These establish a hierarchy of credit approval levels, aligned to customer risk grades and consistent with normal customer exposures in the business.

Credit risk mitigation, collateral and other credit enhancements

The Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Banking Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to Loss Given Default ('**LGD**'). The value of the guarantee is not always separately recorded, and therefore, not available for disclosure, under Clause 7 of Schedule 11 to the Order.

The table below describes the nature of collateral held for financial asset classes:

Financial assets	Nature of collateral
Derivative financial instruments	Netting agreements can be used to enable the effects of derivative assets and derivative liabilities with the same counterparty to be offset when measuring these exposures. Additionally, collateralisation agreements are also typically entered into with major derivatives counterparties to avoid the potential build up of excessive mark-to-market positions. Derivative transactions are increasingly being cleared through central clearers.
Loans	Housing and other loans for consumer purposes may be secured, partially secured or unsecured depending on the product. Security is typically taken by a fixed and/or floating charge over property or other assets. Loans for business purposes may be secured, partially secured or unsecured. Security is typically taken by way of a fixed and/or floating charge over property, business assets, or other assets. Other forms of credit protection may also be sought or taken out if warranted.

Management of risk mitigation

The Banking Group mitigates credit risk through controls covering:

Collateral and valuation management	The estimated realisable value of collateral held in support of loans is based on a combination of: ▪ formal valuations currently held for such collateral; and ▪ management's assessment of the estimated realisable value of all collateral held. This analysis also takes into consideration any other relevant knowledge available to management at the time. Updated valuations are obtained when appropriate. The Banking Group revalues collateral related to financial markets positions on a daily basis and has formal processes in place to promptly call for collateral top-ups, if required. The collaterisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association dealing agreements.
Other credit enhancements	The Banking Group only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities, provided they are not related to the underlying obligor: ▪ sovereign entities; ▪ public sector entities in Australia and New Zealand; ▪ authorised deposit-taking institutions and overseas banks; and ▪ other entities with a minimum risk grade equivalent of A3/A-.
Netting	Creditworthy customers domiciled in New Zealand may enter into formal agreements with the Banking Group, permitting the Banking Group to set-off gross credit and debit balances in their nominated accounts. Cross-border set-offs are not permitted. Close-out netting is undertaken with counterparties with whom the Banking Group has entered into a legally enforceable master netting agreement for their off balance sheet financial market transactions, in the event of default. Further details of offsetting are provided in Note 28.
Central clearing (ASX/LCH)	The Banking Group increasingly executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the collective collateral pool, and an explicitly defined order of priority of payments in the event of default.

Internal credit risk rating system

In applying its Control Principles of Credit, the Banking Group recognises and reflects two approaches to managing credit risk based on the nature of the customer and product:

- **Transaction-managed approach**

  For larger customers, the Banking Group evaluates credit requests by undertaking detailed individual customer and transaction risk analysis (the '**transaction-managed**' approach). The Banking Group assigns a customer risk grade ('**CRG**') to each customer, corresponding to their

Note 36 Risk management (continued)

Probability of Default ('**PD**'). Each facility is assigned a LGD taking into account the realistic distress value of assets over which the Banking Group holds security and considering the seniority of exposures in the capital and debt structure of the customer. The final assignment of CRGs and LGDs are approved by independent credit officers with appropriate authority. Divisional operational units are responsible for ensuring accurate and timely recording of all changes to customer and facility data.

- **Program-managed approach**

  High-volume customer credit portfolios with homogenous credit risk characteristics are managed on a statistical basis according to predetermined objective criteria (the '**program-managed**' approach). Quantitative scorecards are used to assign application and behavioural scores to enable risk-based decision-making within these portfolios. The scorecard outcomes and decisions are regularly monitored and validated against subsequent customer performance and recalibrated (or rebuilt) when required. For capital estimation (and other purposes), risk-based customer segments are created based on expected PDs, and LGDs are assigned for each segment based on historic experience and management judgment.

The principal objective of the credit risk rating system is to produce a reliable quantitative assessment of the credit risk to which the Banking Group is exposed.

The Banking Group's internal credit risk rating system for transaction-managed customers assigns a CRG to each customer, corresponding to their expected PD and has 20 risk grades for non-defaulted customers and 10 risk grades for defaulted customers. Non-defaulted CRGs are mapped to Moody's Investors Service ('**Moody's**') and S&P Global Ratings ('**S&P**') external senior ranking unsecured ratings. This mapping is reviewed annually and allows the Banking Group to use the rating agencies' long-run default history to calculate long-run average PDs.

The table below shows the current alignment between the Banking Group's CRGs and the corresponding external rating. Note that only high-level CRG groupings are shown.

Banking Group's CRG	S&P rating	Moody's rating	Supervisory slotting grade
A	AAA to AA-	Aaa to Aa3	Strong
B	A+ to A-	A1 to A3	Strong
C	BBB+ to BBB-	Baa1 to Baa3	Strong
D	BB+ to B+	Ba1 to B1	Good/satisfactory
Banking Group rating			
E	Watchlist		Weak
F	Specific mention		Weak
G	Substandard/default		Weak/default
H	Default		Default

The retail (program-managed) portfolio is segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics of default. Each segment is assigned a quantified measure of its PD, LGD and exposure at default ('**EAD**').

The Banking Group's credit risk rating system is reviewed annually to ensure the rating criteria and procedures are applicable to the current portfolio and external conditions. The annual review of the credit risk rating system is approved by the Ultimate Parent Bank BRCC.

To ensure the credit risk rating system is applied consistently across the Banking Group, the Ultimate Parent Bank Group's Credit Risk Assurance team independently reviews end-to-end technical and operational aspects of the overall process. Models materially impacting the risk rating process are reviewed annually in accordance with the Ultimate Parent Bank Group's model risk policy.

Specific credit risk estimates (including PD, LGD and EAD levels) are overseen and approved by the Bank's RISKCO and by the Ultimate Parent Bank Group Credit Risk Committees for utilisation within the Banking Group.

Use of internal credit risk estimates

In addition to using the credit risk estimates for regulatory capital purposes, they are also used for the following purposes:

Economic capital

The Banking Group allocates economic capital to all exposures. Economic capital includes both credit and non-credit components. Economic credit capital is allocated using a framework that considers estimates of PD, LGD, EAD, Total Committed Exposure and loan tenor as well as measures of portfolio composition not reflected in regulatory capital formulae. [1]

Pricing

The Banking Group prices loans so as to produce an acceptable return on the economic capital allocated to the loan, after expected credit losses (and other costs) are incurred. Estimates of economic capital and expected credit losses take into account estimates of PD, LGD and EAD.

Provisioning

Impairment provisions are reserves held by the Banking Group to cover credit losses that are incurred in the loan portfolio. Individual provisions are calculated on impaired loans taking into account management's best estimate of the present value of future cash flows. Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and emergence periods. Transaction-managed portfolio provisions use the risk grading framework and suitable PDs, LGDs and EADs are assigned to each customer/facility as the basis for the calculation. Program-managed portfolios use estimated loss rates based on recent past experience as the primary basis of the calculation. These estimates are then adjusted for the specific requirements of NZ IFRS.

Credit approval authorities

For transaction-managed facilities, the approval authorities are allocated based on the CRG with lower limits applicable for customers with a higher PD. Program-managed facilities are approved on the basis of application scorecard outcomes and product-based approval authorities.

Risk-adjusted performance measurement

Business unit performance is measured using an economic profit framework which incorporates charges for economic credit capital as well as capital for other risk types.

[1] The Banking Group uses economic capital as the basis for risk-adjusted decision-making across the Banking Group and allows differences between economic and regulatory capital where such differences drive better medium-term to long-term business decisions.

Note 36 Risk management (continued)

Regulatory capital

The credit risk rating system is a key input to evaluate the level of capital to be held against loans for regulatory capital purposes.

Overview of the internal credit risk ratings process by portfolio

(a) Transaction-managed approach (including business lending, corporate, sovereign and bank)

The process for assignment and approval of individual PDs and LGDs involves business unit representatives recommending the CRGs and LGDs under criteria guidelines. Credit Officers then independently evaluate the recommendations and approve the final outcomes. An expert judgment decision-making process is employed to evaluate the CRG. The following represent the types of business lending, corporate, sovereign and banking exposures included within the transaction-managed portfolio approach:

- direct lending exposures;
- contingent lending exposures;
- pre-settlement exposures;
- foreign exchange settlement exposures; and
- transaction exposures.

All of the above exposure categories also apply to Specialised Lending, which is a sub-asset class of Corporate and in the Banking Group comprises Property Finance and Project Finance. Regulatory risk-weights are also applied to Specialised Lending.

Definitions, methods and data for estimation and validation of PD, LGD and EAD

PD

The PD is a through-the-cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year. The Banking Group reflects its PD estimate in a CRG.

LGD

The LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn. The Banking Group assigns an LGD to each credit facility, assuming an event of default has occurred, and taking into account a conservative estimate of the net realisable value of assets to which the Banking Group has recourse and over which it has security. LGDs also reflect the seniority of exposures in the customers' capital and debt structure.

LGD estimates are benchmarked against observed historical LGDs from internal and external data and are calibrated to reflect losses expected in an economic downturn. The calculation of historical LGDs is based on an economic loss and includes allowances for workout costs and the discounting of future cash flows to the date of default.

LGD values range from 5% to 100%. The range of LGD values ensures that the risk of loss is differentiated across many credit facilities extended to customers.

*EAD and Credit Conversion Factor ('**CCF**')*

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default. The proportion of undrawn commitments ultimately is termed the CCF. EAD therefore consists of the initial outstanding balances plus the CCF multiplied by undrawn commitments. For transaction-managed exposures CCF's are all 100%.

(b) Retail (program-managed) asset class approach (including residential mortgages, small business and other retail)

Each customer is rated using details of their account performance or application details and segmented into pools of similar risk. These segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics of default. The retail (program-managed) portfolio is divided into a number of segments per product with each segment assigned a quantified measurement of its PD, LGD and EAD.

Retail asset class exposures included in the retail (program-managed) portfolio approach are split into the following categories of products:

Asset sub-classes	Product categories
Residential mortgages	▪ Mortgages
Small business	▪ Equipment finance ▪ Business overdrafts ▪ Business term loans ▪ Business credit cards
Other retail	▪ Credit cards ▪ Personal loans ▪ Overdrafts

PD

PDs are assigned at the retail segment level and reflect the likelihood of accounts within that segment to default. A long-run average is used to assign a PD to each account in a segment based on the segment's characteristics. The PD estimate for each segment is based on internal data.

Models are used to help determine or establish the appropriate internal rating for program-managed portfolios.

LGD

LGD measures the proportion of the exposure that will be lost if default occurs. LGD is measured as a percentage of EAD. The approach to LGD varies depending on whether the retail product is secured or unsecured. A downturn period is used to reflect the effect on the collateral for secured products. For unsecured products, a long-run estimate is used for LGD.

EAD

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. To calculate EAD, historical data is analysed to determine what proportion of undrawn commitments are ultimately utilised by customers who end up in default.

Note 36 Risk management (continued)

Maximum exposure to credit risk

$ millions	The Banking Group 2016	2015
Financial assets		
Cash and balances with central banks	**1,418**	857
Due from other financial institutions	**720**	18
Trading securities and other financial assets designated at fair value	**2,128**	2,085
Derivative financial instruments	**130**	618
Available-for-sale securities	**3,790**	3,421
Loans	**75,172**	69,155
Due from related entities	**1,760**	2,587
Other assets	**168**	182
Total financial assets	**85,286**	78,923
Undrawn credit commitments		
Letters of credit and guarantees	**818**	854
Commitments to extend credit	**23,932**	23,791
Other commitments	**-**	40
Total undrawn credit commitments	**24,750**	24,685
Total maximum credit risk exposure	**110,036**	103,608

Mapping of Basel categories to the Banking Group portfolios

Asset Class	Sub-asset Class	Banking Group Category	Segmentation Criteria
Corporate	Corporate	Corporate	All transaction-managed customers not elsewhere classified where annual turnover exceeds $50 million.
	SME corporate	Business lending	All transaction-managed customers not elsewhere classified where annual turnover is $50 million or less.
	Specialised lending	Specialised lending - property	Applied to transaction-managed customers where the primary source of debt service, security and repayment is derived from either the sale of a property development or income produced by one or more investment properties.
		Specialised lending - project finance	Applied to transaction-managed customers where the primary source of debt service, repayment and security is revenues generated by a project.
Sovereign		Sovereign	Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code.
Bank		Bank	Applied to transaction-managed customers identified by Australian and New Zealand Standard Industrial Classification code and public sector entities.
Residential mortgages		Residential mortgages	All program-managed exposures secured by residential mortgages defined as housing lending.
Other retail		Small business	Program-managed business lending.
		Other retail	All other program-managed lending to retail customers, including New Zealand credit cards.

Note 36 Risk management (continued)

Credit risk exposures by asset class

The Banking Group's credit risk exposures by asset class as at 30 September 2016 (Unaudited)

Exposure-weighted PD Grade (%)	Weighted average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Residential mortgages						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.18	2,432	21.05	8.35	203	16
0.25 to 1.0	0.51	25,277	21.49	18.67	4,720	378
1.0 to 2.5	1.40	19,640	21.44	37.76	7,417	593
2.5 to 10.0	4.42	3,959	22.43	78.38	3,103	248
10.0 to 99.99	-	-	-	-	-	-
Default	100.00	230	21.67	238.70	549	44
Total	1.58	51,538	21.53	31.03	15,992	1,279
Other retail (Credit cards, personal loans, personal overdrafts)						
0.00 to 0.10	-	-	-	-	-	-
0.10 to 0.25	0.14	544	40.69	13.60	74	6
0.25 to 1.0	0.36	1,482	64.28	40.55	601	49
1.0 to 2.5	2.22	1,404	68.06	94.52	1,327	106
2.5 to 10.0	5.42	343	84.68	134.40	461	37
10.0 to 99.99	19.29	213	70.74	154.46	329	26
Default	100.00	11	71.28	136.36	15	1
Total	2.70	3,997	64.51	70.23	2,807	225
Small business						
0.00 to 0.10	0.03	142	73.76	7.75	11	1
0.10 to 0.25	-	-	-	-	-	-
0.25 to 1.0	0.33	615	21.09	18.21	112	9
1.0 to 2.5	1.84	1,529	21.38	28.71	439	35
2.5 to 10.0	4.91	245	20.10	31.43	77	6
10.0 to 99.99	15.62	29	21.65	44.83	13	1
Default	100.00	32	22.27	259.38	83	7
Total	3.04	2,592	24.07	28.36	735	59

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

Note 36 Risk management (continued)

Exposure-weighted PD Grade (%)	Weighted average PD %	EAD $ millions	Exposure-weighted LGD %	Exposure-weighted Risk Weight %	Risk-weighted Assets (scaled)[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Corporate/Business lending						
0.00 to 0.02	-	-	-	-	-	-
0.02 to 0.04	0.03	2,449	39.63	14.21	348	28
0.04 to 0.10	0.08	4,699	52.20	30.30	1,424	114
0.10 to 0.50	0.21	7,563	47.36	47.85	3,619	290
0.50 to 3.0	1.61	12,331	36.03	80.44	9,919	793
3.0 to 10.0	3.70	1,073	35.50	109.04	1,170	94
10.0 to 99.0	21.85	2,123	40.54	206.17	4,377	350
Default	100.00	121	48.05	66.12	80	6
Total	2.78	30,359	41.99	68.96	20,937	1,675
Sovereign						
0.00 to 0.02	0.01	1,213	60.00	3.87	47	4
0.02 to 0.04	0.02	3,968	15.33	2.24	89	7
0.04 to 0.10	0.04	2	27.79	-	-	-
0.10 to 0.50	-	-	-	-	-	-
0.50 to 3.0	1.88	1	22.30	-	-	-
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.02	5,184	25.79	2.62	136	11
Bank						
0.00 to 0.02	-	-	-	-	-	-
0.02 to 0.04	0.03	2,259	30.38	8.76	198	15
0.04 to 0.10	0.05	634	39.01	15.30	97	8
0.10 to 0.50	0.13	31	60.00	32.26	10	1
0.50 to 3.0	2.71	6	35.00	116.67	7	1
3.0 to 10.0	-	-	-	-	-	-
10.0 to 99.0	-	-	-	-	-	-
Default	-	-	-	-	-	-
Total	0.04	2,930	32.57	10.65	312	25
Total credit risk exposures subject to the internal ratings based approach		96,600			40,919	3,274

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

The following table summarises the Banking Group's credit risk exposures by asset class arising from undrawn commitments and other off-balance sheet exposures. These unaudited amounts are included in the previous tables.

$ millions	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value	EAD	Value	EAD
Residential mortgages	8,864	6,642	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	3,271	1,907	-	-
Small business	909	826	-	-
Corporate/Business lending	9,377	9,537	-	-
Sovereign	120	114	-	-
Bank	842	890	-	-
Total	23,383	19,916	-	-

Equity	Total Exposure $ millions	Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Equity holdings (not deducted from capital) that are not publicly traded	-	300	-	-
All other holdings (not deducted from capital)	-	400	-	-

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

Note 36 Risk management (continued)

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 30 September 2016 (Unaudited)

Supervisory slotting grade	Total Exposures After Credit Risk Mitigation $ millions	Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Strong	2,622	70.00	1,946	156
Good	3,470	90.00	3,310	265
Satisfactory	933	115.00	1,137	91
Weak	69	250.00	184	15
Default	188	-	-	-
Total	7,282	85.21	6,577	527

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

The following table summarises the Banking Group's Specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	EAD $ millions	Average Risk Weight %	Risk-weighted Assets[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	1,384	77.43	1,136	91

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

The Banking Group's credit risk exposures subject to the standardised approach as at 30 September 2016 (Unaudited)

Calculation of on-balance sheet exposures

	Total Exposure After Credit Risk Mitigation $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Other assets[2]	1,955	33.34	693	55
Total on-balance sheet exposures	1,955		693	55

[1] The value of the scalar used in determining the credit risk weighted assets is 1.06 as required by the conditions of registration.
[2] Other assets relate to property and equipment and other assets and related parties.

Calculation of off-balance sheet exposures

	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor %	Credit Equivalent Amount $ millions	Average Risk Weight %	Risk-weighted Exposure[1] $ millions	Minimum Pillar 1 Capital Requirement $ millions
Market related contracts subject to the standardised approach						
Foreign exchange contracts	13,534	N/A	468	20.00	100	8
Interest rate contracts	31,504	N/A	82	20.00	17	1
Credit value adjustment	-	N/A	-	-	84	7
Total market related contracts subject to the standardised approach	45,038		550		201	16
Standardised subtotal (on and off balance sheet)			2,505		894	71

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

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 30 September 2016 (Unaudited)

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

For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore, not available for disclosure as required under Clause 4 of Schedule 11 of the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

LVR range ($ millions)	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	18,536	8,563	10,708	5,207	1,822	44,836
Undrawn commitments and other off-balance sheet exposures	5,459	1,464	1,350	441	150	8,864
Value of exposures	23,995	10,027	12,058	5,648	1,972	53,700

Note 36 Risk management (continued)

The Banking Group's reconciliation of residential mortgage-related amounts (Unaudited)

The table below provides the Banking Group's reconciliation between any amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

$ millions	The Banking Group 30-Sep-16
Term loans - Housing (as disclosed in Note 12) and Residential mortgages - total gross loans (as disclosed in Note 13)	**45,153**
Reconciling items:	
Unamortised deferred fees and expenses	**(194)**
Fair value hedge adjustments	**(123)**
Value of undrawn commitments and other off-balance sheet amounts relating to residential mortgages	**8,864**
Residential mortgages by LVR	**53,700**
Reconciling items:	
Accrued interest receivable	**60**
Undrawn at default[1]	**(2,222)**
Residential mortgages - EAD (as disclosed in Credit risk exposures by asset class)	**51,538**

[1] Estimate of the amount of committed exposure not expected to be drawn by the customer at the time of default.

Credit quality of financial assets

An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion. The breakdown in the table below does not always align with the underlying basis by which credit risk is managed within the Banking Group. The Banking Group considers loans for business purposes to be delinquent after considering all relevant circumstances surrounding the customer. Residential mortgages and personal loans that are more than five days past due are considered to be delinquent.

All the financial assets of the Banking Group as at 30 September 2016 and 2015, other than loans (as disclosed in Note 13), are neither past due nor impaired.

The credit quality of financial assets of the Banking Group that are neither past due nor impaired have been assessed by reference to the credit risk rating system adopted internally. All the financial assets of the Banking Group that are neither past due nor impaired fall into 'Strong' category except those disclosed below:

	The Banking Group							
	2016				2015			
$ millions	**Strong**	**Good/ Satisfactory**	**Weak**	**Total**	Strong	Good/ Satisfactory	Weak	Total
Trading securities and other financial assets designated at fair value (refer to Note 10)	**2,122**	**6**	**-**	**2,128**	2,074	11	-	2,085
Loans (refer to Note 13)	**30,730**	**41,192**	**2,259**	**74,181**	21,111	45,865	1,048	68,024
Other finanical assets[1] (refer to Note 16)	**53**	**70**	**4**	**127**	47	101	2	150

[1] Comparative information has been restated to ensure consistent presentation with the current reporting period.

Collateral held

Loans

The Banking Group analyses the coverage of the loan portfolio which is secured by the collateral that it holds. Coverage is measured as follows:

Coverage	Secured loan to collateral value ratio
Fully secured	Less than or equal to 100%
Partially secured	Greater than 100% but not more than 150%
Unsecured	Greater than 150%, or no security held (e.g. can include credit cards, personal loans, and exposure to highly rated corporate entities)

The Banking Group's loan portfolio has the following coverage from collateral held:

	The Banking Group	
%	**2016**	2015
Fully secured	**75**	75
Partially secured	**13**	13
Unsecured	**12**	12
Total net loans	**100**	100

Note 36 Risk management (continued)

Collateral held against financial assets other than loans

	The Banking Group	
$ millions	**2016**	2015
Cash	**6**	487
Securities under reverse repurchase agreements	**386**	774
Total other collateral held	**392**	1,261

Securities received as collateral are not recognised on the Banking Group's balance sheet.

36.2 Compliance and operational risk

The Bank's RISKCO, chaired by the Bank's CRO, is responsible for overseeing the effectiveness and implementation of the Operational Risk and Compliance Frameworks. RISKCO monitors the operational risk profiles and the action plans, and has the discretion to escalate material matters to the Bank's BRCC and/or the relevant Ultimate Parent Bank Group Risk Committee.

Compliance risk

The Bank is subject to regulation and regulatory oversight. Any significant regulatory developments could have an adverse effect on how business is conducted and on the results of operations. Business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond the Bank's control.

The Bank has a Compliance Management Framework and a dedicated compliance function to assist the business manage its compliance risks. Effective compliance risk management enables the Bank to identify emerging issues and, where necessary, put in place preventative measures.

Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events, and includes legal and regulatory risk, but excludes strategic and reputation risk. Operational risk has the potential, as a result of the way business objectives are pursued, to negatively impact the Banking Group's financial performance, customer service and/or reputation in the community or cause other damage to the business.

The Bank has a dedicated Operational Risk function which uses its Operational Risk Management Framework (which is aligned to the Ultimate Parent Bank Group Operational Risk Management Framework) to assist its business units in the achievement of their objectives through assisting the business to understand and manage those risks that could hinder progress. This Framework outlines the business requirements for managing operational risk with respect to governance, risk and control assessments, incident management and reporting and monitoring.

The Bank has implemented the AMA methodology for calculating operational risk capital. An outline of this methodology, as set out below, takes into consideration both internal and external factors.

Calculating operational risk capital (unaudited)

Operational risk regulatory capital is calculated on a quarterly basis. The Operational Risk Capital Model ('**ORCM**') is reviewed annually to reassess the appropriateness of the model framework, methodology, assumptions and parameters in light of changes in the operational risk profile and industry developments.

The Banking Group operational risk capital is based on three data sources:

- Internal Loss Data – operational risk losses experienced by the Banking Group;
- External Loss Data – operational risk losses experienced by other financial institutions; and
- Scenario Data – potential losses from extreme, but plausible events relevant to the Banking Group.

These data sources together represent the internal and external operational risk profile, across the spectrum of operational risk losses, from both historical and forward-looking perspectives. The model combines these data sources to produce a loss distribution.

No adjustments or deductions are currently made to the Banking Group's measurement of operational risk regulatory capital for the mitigating impacts of insurance or expected operational risk losses.

The following table sets out the Banking Group's unaudited implied risk-weighted exposures under the AMA methodology and the operational risk capital requirement.

	The Banking Group 2016	
$ millions	**Implied Risk-weighted Exposure**	**Total Operational Risk Capital Requirement**
Methodology implemented		
Advanced Measurement Approach		
Operational risk	**4,500**	**360**

Note 36 Risk management (continued)

36.3 Market risk

Market risk is the potential for loss arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates and equity prices. As the Ultimate Parent Bank's financial markets business in New Zealand is conducted by the NZ Branch, the market risks faced by the Banking Group are only of a non-traded nature (interest rate risk in the banking book). The Banking Group does not carry material foreign currency or equity price risk due to the risks being hedged.

Non-traded market risk (interest rate risk in the banking book)

Approach

The banking book activities that give rise to market risk include lending activities, balance sheet funding and capital management. Interest rate risk and funding and liquidity risk are inherent in these activities. The Bank's treasury unit is responsible for managing the interest rate risk arising from these activities.

Asset and liability management

The Bank's treasury unit manages the structural interest rate mismatch associated with the transfer priced balance sheet, including the investment of the Bank's capital to its agreed benchmark duration. A key risk management objective is to help ensure the reasonable stability of net interest income ('**NII**') over time. These activities are performed within the Market Risk Management Framework approved by the Bank's BRCC.

NII sensitivity

NII sensitivity is managed in terms of the net interest income-at-risk ('**NaR**') modelled over a one-year time horizon using a 99% confidence interval for movements in wholesale market interest rates. A simulation model is used to calculate the Bank's potential NaR. The NII simulation framework combines the underlying balance sheet data with assumptions about run off and new business, expected repricing behaviour and changes in wholesale market interest rates. Simulations using a range of interest rate scenarios are used to provide a series of potential future NII outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves. Additional stressed interest rate scenarios are also considered and modelled. A comparison between the NII outcomes from these modelled scenarios indicates the sensitivity to interest rate changes.

Limits

The Bank's BRCC has approved NaR and Value-at-risk ('**VaR**') limits for interest rate risk management. In addition, interest rate delta limits are specified by the Bank's ALCO and the Bank's Market Risk Unit.

Risk reporting

Interest rate risk in the banking book risk measurement systems and personnel are centralised in Sydney, Australia. These include front office product systems which capture all treasury funding and derivative transactions, the transfer pricing system which captures all retail transactions in Australia and New Zealand, traded and non-traded VaR systems which calculate VaR and the NII system which calculates NII and NaR for the Australian and New Zealand balance sheets.

Daily monitoring of current exposure and limit utilisation is conducted independently by the Head of Market Risk. Management reports detailing structural positions and VaR are produced and distributed daily for use by dealers and management across all stakeholder groups. Monthly and quarterly reports are produced for the Ultimate Parent Bank's risk forums and Ultimate Parent Bank BRCC, respectively, to ensure transparency of material market risks and issues.

Risk mitigation

Market risk arising in the banking book stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management.

The Banking Group hedges its exposures to such interest rate risk using derivatives. Derivatives are used by the Banking Group as part of its asset and liability management activities, mainly to hedge its exposures to interest rates and foreign currency risk, including exposures arising from forecast transactions. The Banking Group uses hedge accounting techniques where possible to eliminate the volatility which would otherwise arise due to accounting mismatches. This activity is principally carried out by treasury within the risk management framework of limits, practices and procedures set and overseen by the Banking Group's Executive Risk Committee. Further details on the Banking Group's hedge accounting are discussed in Note 26.

VaR

The Banking Group uses VaR as one of the mechanisms for controlling non-traded market risk.

VaR is a statistical estimate of the potential loss in earnings over a specified period of time and to a given level of confidence based on historical market movements. The confidence level indicates the probability that the loss will not exceed the VaR estimate on any given day.

VaR seeks to take account of all material market variables that may cause a change in the value of the portfolio, including interest rates, foreign exchange rates, price changes, volatility and the correlations between these variables.

The key parameters of VaR are:

Holding period	1 day
Confidence level	99%
Period of historical data used	1 year
Stressed VaR measures	10 day, 99% confidence level

Note 36 Risk management (continued)

The Banking Group does not have any significant foreign currency and equity risk. The following table provides a summary of Interest Rate Risk VaR for the Banking Group's non-traded market risk activities.

$ millions	2016	2015
Interest rate risk	**1.39**	1.01

Market risk notional capital charges (unaudited)

The Banking Group's aggregate market risk exposure is derived in accordance with BS2B and is calculated on a six monthly basis. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information.

For each category of market risk, the Banking Group's peak end-of-day aggregate capital charge is derived by determining the maximum over the six months ended 30 September 2016 of the aggregate capital charge for that category of market risk at the close of each business day derived in accordance with BS2B.

The following table provides a summary of the Banking Group's capital charges by risk type as at the reporting date and the peak end-of-day capital charges by risk type for the six months ended 30 September 2016.

	The Banking Group 2016	
$ millions	Implied Risk-weighted Exposure	Aggregate capital charge
End-of-period		
Interest rate risk	**881**	**71**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**
	881	**71**
Peak end-of-day		
Interest rate risk	**1,199**	**96**
Foreign currency risk	**-**	**-**
Equity risk	**-**	**-**

Note 36 Risk management (continued)

Interest rate sensitivity

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with the Banking Group's policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 30 September 2016. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour to manage its interest rate risk.

	The Banking Group 2016						
$ millions	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Financial assets							
Cash and balances with central banks	1,214	-	-	-	-	204	1,418
Due from other financial institutions	720	-	-	-	-	-	720
Trading securities and other financial assets designated at fair value	1,460	190	478	-	-	-	2,128
Derivative financial instruments	-	-	-	-	-	130	130
Available-for-sale securities	-	30	111	532	3,117	-	3,790
Loans	41,304	4,238	10,729	14,050	5,286	(435)	75,172
Due from related entities	1,629	-	-	-	-	131	1,760
Other assets	-	-	-	-	-	168	168
Total financial assets	46,327	4,458	11,318	14,582	8,403	198	85,286
Non-financial assets							1,021
Total assets							86,307
Financial liabilities							
Due to other financial institutions	6	-	-	-	-	9	15
Deposits and other borrowings	39,940	8,384	4,224	1,060	562	4,621	58,791
Other financial liabilities at fair value through income statement	400	-	-	-	-	-	400
Derivative financial instruments	-	-	-	-	-	884	884
Debt issues	5,473	1,877	-	1,361	6,016	-	14,727
Other liabilities	-	-	-	-	-	410	410
Due to related entities	2,160	-	-	5	10	995	3,170
Subordinated notes	1,091	-	-	-	-	-	1,091
Total financial liabilities	49,070	10,261	4,224	2,426	6,588	6,919	79,488
Non-financial liabilities							259
Total liabilities							79,747
On-balance sheet interest rate repricing gap	(2,743)	(5,803)	7,094	12,156	1,815		
Net derivative notional principals							
Net interest rate contracts (notional):							
Receivable/(payable)	16,011	(1,284)	(5,251)	(9,417)	(59)		
Net interest rate repricing gap	13,268	(7,087)	1,843	2,739	1,756		

Note 36 Risk management (continued)

36.4 Funding and liquidity risk

Liquidity risk is the potential inability to fund assets and meet the Bank's payment obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the Bank's balance sheet due to mismatches in the maturity of assets and liabilities. This risk is managed through the Bank's BRCC approved liquidity risk management framework.

Responsibility for liquidity management is delegated to the Bank's CFO under the oversight of the Bank's CE. The Bank's treasury unit reports to the Bank's CFO and manages the liquidity position on a day to day basis. Liquidity risk positions are modelled and reported daily. Independent oversight is provided by the Head of Market Risk in conjunction with the Bank's CRO, with executive oversight provided by the Bank's ALCO. Reporting of liquidity and funding risk is provided to the Bank's ALCO. Quarterly reporting is presented to the Bank's BRCC who also approve the funding strategy, liquidity limits structure and liquidity risk management framework. In addition, reporting is also provided to the Ultimate Parent Bank's Banking Book Risk Committee and Asset and Liability Committee.

The Bank aims to operate a mix of retail and wholesale funding, with emphasis on the value of core funding consistent with the principles inherent in Reserve Bank's document entitled 'Liquidity Policy' (BS13) ('**BS13**').

Key aspects of the liquidity management strategy are as follows:

Liquidity risk management framework

The liquidity risk management framework (the '**framework**') is owned by the Bank's CRO and approved by the Bank's BRCC. The framework covers all aspects of liquidity risk management including:

- roles and responsibilities;
- measurement and modelling approaches;
- reference to contingency planning arrangements (covered separately by the Contingency Management Action Plan);
- principal framework components, policies and reports along with the frequency of review and authority for approval;
- liquidity risk limits;
- limit determination; and
- minimum holdings of liquid assets.

The framework is reviewed at least every two years and submitted to the Bank's BRCC for endorsement.

Daily liquidity modelling and reporting

The Bank is subject to the conditions of BS13. The following metrics are calculated and reported on a daily basis in accordance with BS13:

- the level of liquid assets held;
- the one-week mismatch ratio;
- the one-month mismatch ratio; and
- the one-year core funding ratio.

In addition, the Bank calculates the following liquidity ratios in accordance with the Ultimate Parent Bank's liquidity risk framework under APS 210 Liquidity:

- liquidity coverage ratio; and
- going concern limits.

Reports are circulated daily to the Bank's treasury, risk and finance personnel, including the Bank's CRO and CFO. Exceptions to internal limits are escalated immediately to senior management, the Bank's ALCO or the Board depending on the status of the limit.

Annual funding plan

Each financial year the Bank's treasury unit undertakes a comprehensive review resulting in the preparation of the Bank's annual funding plan. This review outlines the current funding strategy, proposes a funding strategy for the coming financial year and covers areas such as:

- trends in global debt markets;
- funding alternatives;
- peer analysis;
- estimate of long term issuance plan;
- estimated market capacity;
- funding risk analysis; and
- allocation of funding costs.

The Bank's annual funding plan is reviewed by the Bank's ALCO prior to approval by the Bank's BRCC.

Contingency planning

Treasury maintains a Crisis Management Action Plan detailing broad actions that should be taken in the event of a funding crisis. This action plan:

- defines a committee of senior executives to manage a crisis;
- allocates responsibility to individuals for key tasks;
- includes a media relations strategy;
- provides a contingent funding plan; and
- contains detailed contact lists outlining key regulatory, government, ratings agencies and debt investor contact points.

Note 36 Risk management (continued)

Sources of liquidity

The principal sources of liquidity for the Bank are:

- customer deposits;
- wholesale funding;
- proceeds from sales of marketable securities;
- repurchase agreements;
- principal repayments on loans;
- interest income; and
- fee income.

Wholesale funding

The wholesale funding base is diversified with respect to term, investor base, currency and funding instruments. The Bank and its subsidiary, WSNZL, maintain funding programmes for both short and long-term debt in several jurisdictions including New Zealand, Europe and the United States.

	The Banking Group					
	2016			2015		
Markets	**Issuer**	**Programme Type**	**Programme Limit**	**Issuer**	**Programme Type**	**Programme Limit**
Euro market	**Ultimate Parent Bank / WSNZL[1]**	**Euro Commercial Paper and Certificate of Deposit Programme**	**US$20 billion**	Ultimate Parent Bank / WSNZL[1]	Euro Commercial Paper and Certificate of Deposit Programme	US$20 billion
Euro market	**WSNZL[1]**	**Programme for Issuance of Debt Instruments**	**US$10 billion**	WSNZL[1]	Programme for Issuance of Debt Instruments	US$7.5 billion
Euro market	**WSNZL[1]**	**Global Covered Bond Programme**	**€5.0 billion**	WSNZL[1]	Global Covered Bond Programme	€5.0 billion
United States	**WSNZL[1]**	**US Commercial Paper Programme**	**US$10 billion**	WSNZL[1]	US Commercial Paper Programme	US$10 billion
New Zealand	**The Bank**	**Medium-term Note Programme and Registered Certificate of Deposit Programme**	**No limit**	The Bank	Medium-term Note Programme and Registered Certificate of Deposit Programme	No limit

1 Notes issued by WSNZL are guaranteed by the Bank.

Liquid assets

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

	The Banking Group	
$ millions	**2016**	2015
Cash and balances with central banks	**1,418**	857
Due from other financial institutions (included in due from related entities)	**512**	738
Supranational securities	**1,305**	1,176
NZ Government securities	**1,990**	2,388
NZ public securities	**1,380**	1,518
NZ corporate securities	**1,145**	1,193
Residential mortgage-backed securities	**3,992**	3,992
Total liquid assets	**11,742**	11,862

Contractual maturity of financial instruments

The following tables present cash flows associated with financial instruments receivable or payable at the balance sheet date, by remaining contractual maturity. The amounts disclosed in the table are the future contractual undiscounted cash flows, whereas the Banking Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with these financial instruments include both principal payments as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivatives designed for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows derived as the fixed rate and/or the expected variable rate applied to the notional amount over the remaining contractual term and where relevant includes the receipt and payment of the notional amount under the contract. Foreign exchange obligations have been translated to New Zealand dollars using the closing spot rates at the end of the financial year.

Note 36 Risk management (continued)

The balances in the tables below will not necessarily agree to amounts presented on the face of the balance sheet as amounts in the table incorporate cash flows on an undiscounted basis and include both principal and associated future interest payments.

Derivatives held for trading and other financial instruments at fair value through income statement are not managed for liquidity purposes on the basis of their contractual maturity, and accordingly these instruments are presented in both the on demand and up to 1 month columns. The financial instruments that are managed based on their contractual maturity are presented on a contractual undiscounted basis in the tables below:

	The Banking Group 2016						
$ millions	On Demand	Up to 1 Month	Over 1 Month and up to 3 Months	Over 3 Months and up to 1 Year	Over 1 Year and up to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	1,418	-	-	-	-	-	1,418
Due from other financial institutions	-	720	-	-	-	-	720
Trading securities and other financial assets designated at fair value	-	270	805	755	334	-	2,164
Derivative financial instruments:							
Held for trading	2	-	-	-	-	-	2
Held for hedging purposes (net settled)	-	2	-	5	23	-	30
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(14)	(40)	(1,611)	(468)	(2,133)
Cash inflow	-	-	5	12	1,539	362	1,918
Available-for-sale securities	-	7	28	266	3,669	64	4,034
Loans	5,462	7,553	5,727	7,006	25,634	58,140	109,522
Due from related entities:							
Non-derivative balances	1,282	386	-	-	-	-	1,668
Derivative financial instruments:							
Held for trading	2	-	-	-	-	-	2
Held for hedging purposes (net settled)	-	7	(1)	33	56	-	95
Other assets	-	41	-	-	-	-	41
Total undiscounted financial assets	8,166	8,986	6,550	8,037	29,644	58,098	119,481
Financial liabilities							
Due to other financial institutions	9	6	-	-	-	-	15
Deposits and other borrowings	28,375	5,239	11,174	12,928	1,735	-	59,451
Other financial liabilities at fair value through income statement	-	400	-	-	-	-	400
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	10	68	157	4	242
Held for hedging purposes (gross settled):							
Cash outflow	-	15	261	1,775	4,137	631	6,819
Cash inflow	-	(2)	(180)	(1,490)	(3,392)	(540)	(5,604)
Other liabilities	-	89	-	-	-	-	89
Debt issues	-	302	1,108	4,556	8,377	931	15,274
Due to related entities:							
Non-derivative balances	822	83	47	230	1,171	-	2,353
Derivative financial instruments:							
Held for trading	110	-	-	-	-	-	110
Held for hedging purposes (net settled)	-	29	39	175	187	-	430
Held for hedging purposes (gross settled):							
Cash outflow	-	-	33	1,526	1,669	32	3,260
Cash inflow	-	-	(14)	(1,245)	(1,524)	(29)	(2,812)
Subordinated notes	-	-	13	37	1,267	-	1,317
Total undiscounted financial liabilities	29,316	6,164	12,491	18,560	13,784	1,029	81,344
Total contingent liabilities and commitments							
Letters of credit and guarantees	818	-	-	-	-	-	818
Commitments to extend credit	23,932	-	-	-	-	-	23,932
Total undiscounted contingent liabilities and commitments	24,750	-	-	-	-	-	24,750

Note 36 Risk management (continued)

	The Banking Group						
	2015						
$ millions	On Demand	Up to 1 Month	Over 1 Month and up to 3 Months	Over 3 Months and up to 1 Year	Over 1 Year and up to 5 Years	Over 5 Years	Total
Financial assets							
Cash and balances with central banks	857	-	-	-	-	-	857
Due from other financial institutions	-	18	-	-	-	-	18
Trading securities and other financial assets designated at fair value	-	504	1,117	86	424	-	2,131
Derivative financial instruments:							
Held for trading	4	-	-	-	-	-	4
Held for hedging purposes (net settled)	-	1	-	3	16	-	20
Held for hedging purposes (gross settled):							
Cash outflow	-	(11)	(48)	(1,923)	(4,450)	-	(6,432)
Cash inflow	-	3	3	1,863	4,784	-	6,653
Available-for-sale securities	-	6	30	420	3,020	275	3,751
Loans	5,621	6,304	5,308	6,276	25,043	56,792	105,344
Due from related entities:							
Non-derivative balances	1,438	773	-	-	-	-	2,211
Derivative financial instruments:							
Held for trading	283	-	-	-	-	-	283
Held for hedging purposes (net settled)	-	4	(7)	47	51	-	95
Held for hedging purposes (gross settled):							
Cash outflow	-	-	(22)	-	-	-	(22)
Cash inflow	-	-	25	-	-	-	25
Other assets	-	32	-	-	-	-	32
Total undiscounted financial assets	8,203	7,634	6,406	6,772	28,888	57,067	114,970
Financial liabilities							
Due to other financial institutions	3	487	-	-	-	-	490
Deposits and other borrowings	28,040	3,848	9,022	10,842	1,992	-	53,744
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	3	8	52	132	9	204
Held for hedging purposes (gross settled):							
Cash outflow	-	-	9	25	139	897	1,070
Cash inflow	-	-	-	(4)	(13)	(888)	(905)
Debt issues	-	19	1,018	4,181	9,182	888	15,288
Other liabilities	-	73	-	-	-	-	73
Due to related entities:							
Non-derivative balances	678	4	66	2,171	6	-	2,925
Derivative financial instruments:							
Held for trading	7	-	-	-	-	-	7
Held for hedging purposes (net settled)	-	17	32	194	219	-	462
Held for hedging purposes (gross settled):							
Cash outflow	-	-	37	101	1,781	1,212	3,131
Cash inflow	-	-	(17)	(93)	(1,615)	(1,178)	(2,903)
Subordinated notes	-	-	17	41	239	1,178	1,475
Total undiscounted financial liabilities	28,728	4,451	10,192	17,510	12,062	2,118	75,061
Total contingent liabilities and commitments							
Letters of credit and guarantees	854	-	-	-	-	-	854
Commitments to extend credit	23,791	-	-	-	-	-	23,791
Other commitments	40	-	-	-	-	-	40
Total undiscounted contingent liabilities and commitments	24,685	-	-	-	-	-	24,685

Note 37 Concentration of funding

$ millions	The Banking Group 2016	2015
Funding consists of		
Due to other financial institutions	**15**	490
Deposits and other borrowings	**58,791**	52,986
Other financial liabilities at fair value through income statement	**400**	-
Debt issues[1]	**14,727**	14,685
Due to related entities[2]	**2,175**	2,815
Subordinated notes	**1,091**	1,143
Total funding	**77,199**	72,119
Analysis of funding by geographical areas[1]		
New Zealand	**61,026**	55,546
Australia	**1,034**	845
United Kingdom	**9,405**	9,897
United States of America	**2,708**	3,045
Other	**3,026**	2,786
Total funding	**77,199**	72,119
Analysis of funding by industry sector		
Accommodation, cafes and restaurants	**328**	265
Agriculture	**1,158**	1,163
Construction	**1,657**	1,482
Finance and insurance	**26,630**	24,829
Forestry and fishing	**419**	173
Government, administration and defence	**2,398**	1,637
Manufacturing	**1,449**	1,454
Mining	**57**	45
Property services and business services	**5,714**	5,079
Services	**4,263**	3,959
Trade	**1,787**	1,381
Transport and storage	**758**	442
Utilities	**720**	461
Households	**23,869**	22,463
Other	**3,817**	4,471
Subtotal	**75,024**	69,304
Due to related entities[2]	**2,175**	2,815
Total funding	**77,199**	72,119

1 The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programmes does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other'. These instruments may have subsequently been on-sold.

2 Amounts due to related entities, as presented above, are in respect of deposits and borrowings and exclude amounts which relate to derivatives and other liabilities.

Australian and New Zealand Standard Industrial Classification ('**ANZSIC**') has been used as the basis for disclosing industry sectors.

Note 38 Concentration of credit exposures

$ millions	The Banking Group 2016	2015
On-balance sheet credit exposures (refer to Note 36.1 Maximum exposure to credit risk)		
Analysis of on-balance sheet credit exposures by geographical areas		
New Zealand	**82,822**	76,580
Australia	**508**	697
United Kingdom	**749**	79
United States of America	**35**	146
Other	**1,172**	1,421
Total on-balance sheet credit exposures	**85,286**	78,923
Analysis of on-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**641**	595
Agriculture	**8,432**	7,770
Construction	**1,258**	1,317
Finance and insurance	**6,755**	5,615
Forestry and fishing	**274**	341
Government, administration and defence	**4,983**	4,203
Manufacturing	**2,693**	2,622
Mining	**310**	468
Property	**12,907**	12,248
Property services and business services	**2,284**	2,195
Services	**2,647**	2,549
Trade	**3,511**	3,352
Transport and storage	**1,565**	1,472
Utilities	**1,835**	1,305
Retail lending	**33,825**	30,667
Subtotal	**83,920**	76,719
Provisions for impairment charges on loans	**(435)**	(415)
Due from related entities	**1,760**	2,587
Other assets	**41**	32
Total on-balance sheet credit exposures	**85,286**	78,923
Off-balance sheet credit exposures (refer to Note 36.1 Maximum exposure to credit risk)		
Credit risk-related instruments	**24,750**	24,685
Total off-balance sheet credit exposures	**24,750**	24,685
Analysis of off-balance sheet credit exposures by industry sector		
Accommodation, cafes and restaurants	**125**	115
Agriculture	**755**	710
Construction	**573**	627
Finance and insurance	**1,688**	2,319
Forestry and fishing	**82**	56
Government, administration and defence	**801**	600
Manufacturing	**1,764**	1,689
Mining	**255**	84
Property	**2,450**	1,982
Property services and business services	**849**	734
Services	**1,262**	1,487
Trade	**2,584**	3,162
Transport and storage	**1,137**	975
Utilities	**1,271**	1,405
Retail lending	**9,130**	8,740
Other	**24**	-
Total off-balance sheet credit exposures	**24,750**	24,685

ANZSIC has been used as the basis for disclosing industry sectors.

Note 38 Concentration of credit exposures (continued)

Concentration of credit exposures to individual counterparties

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

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

- as at 30 September 2016 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 30 September 2016 was nil.

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

	The Banking Group	
	2016	
% of Banking Group's equity	Long-term credit rating A- or A3 and above	Unrated
As at 30 September 2016[1]		
10-14	1	-
15-19	-	-
20 and above	1	-
Peak end-of-day aggregate credit exposure for the three months ended 30 September 2016[1]		
10-14	1	1
15-19	-	-
20 and above	1	-

[1] 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 39 Credit exposures to connected persons and non-bank connected persons

The Banking Group's credit exposure to connected persons is derived in accordance with the Bank's conditions of registration and the Reserve Bank document 'Connected Exposures Policy' (BS8), is net of individual credit impairment allowances and excludes advances to connected persons of a capital nature.

The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier 1 capital of the Banking Group have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 30 September 2016 and then dividing that amount by the Banking Group's Tier 1 capital as at 30 September 2016.

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and on a gross basis. Netting has occurred in respect of certain transactions which are the subject of a bilateral netting agreement. On this basis, there is a limit of 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	The Banking Group	
$ millions	As at 30-Sep-16	Peak End-of-day for the Year Ended 30-Sep-16
Credit exposures to connected persons:		
On gross basis, before netting	1,963	4,004
As a percentage of Tier 1 capital of the Banking Group at end of the year	34.9%	71.2%
Amount that has been netted off in determining the net exposure	577	2,441
As a percentage of Tier 1 capital of the Banking Group at end of the year	10.3%	43.4%
On partial bilateral net basis	1,386	1,563
As a percentage of Tier 1 capital of the Banking Group at end of the year	24.6%	27.8%
Credit exposures to non-bank connected persons	14	14
As a percentage of Tier 1 capital of the Banking Group at end of the year	0.2%	0.2%

Note 39 Credit exposures to connected persons and non-bank connected persons (continued)

As at 30 September 2015, the rating-contingent limit applicable to the Banking Group was 70% of Tier 1 capital on a partial bilateral net basis. This has not changed during the year ended 30 September 2016. Within this overall rating-contingent limit there is a sub-limit of 15% of Tier 1 capital which applies to the aggregate credit exposure to non-bank connected persons.

The limits on aggregate credit exposures to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the year ended 30 September 2016.

Where a bank is funding a large loan it is common practice to share the risk of a customer default through risk transfer to an acceptable entity. These arrangements are called risk lay-off arrangements. As at 30 September 2016, the Banking Group had no material aggregate contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Banking Group's individual credit provisions provided against credit exposures to connected persons was nil as at 30 September 2016.

Note 40 Notes to the statement of cash flows

Accounting policy

Cash and cash equivalents includes cash held at branches and in ATMs, balances with overseas banks in their local currency and balances with central banks.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than the Banking Group.

Cash and balances with central banks

	The Banking Group	
$ millions	**Year Ended 30-Sep-16**	Year Ended 30-Sep-15
Cash and balances with central banks at end of the year comprise:		
Cash on hand	**204**	166
Balances with central banks	**1,214**	691
Cash and balances with central banks at end of the year	**1,418**	857

Reconciliation of net cash provided by/(used in) operating activities to net profit for the year

	The Banking Group	
$ millions	**Year Ended 30-Sep-16**	Year Ended 30-Sep-15
Reconciliation of net cash provided by/(used in) operating activities to profit after income tax expense		
Profit after income tax expense	**851**	911
Adjustments:		
Impairment charges on loans	**59**	47
Computer software amortisation costs	**63**	91
Depreciation on property and equipment	**45**	38
(Gain)/loss from hedging ineffectiveness	**(5)**	4
Movement in accrued interest receivable	**22**	6
Movement in accrued interest payable	**1**	132
Movement in current and deferred tax	**40**	17
Gain on sale of available-for-sale securities	**-**	(19)
Gain on sale of subsidiary	**-**	(4)
Share of profit of associate accounted for using the equity method	**(9)**	-
Share-based payments	**3**	4
Other non-cash items	**(3)**	9
Cash flows from operating activities before changes in operating assets and liabilities	**1,067**	1,236
Movement in due from other financial institutions	**(702)**	144
Movement in trading securities and other financial assets designated at fair value	**(47)**	(871)
Movement in net loans	**(6,108)**	(4,538)
Movement in due from related entities	**543**	(796)
Movement in other assets	**-**	-
Movement in due to other financial institutions	**(475)**	289
Movement in deposits and other borrowings	**5,805**	2,375
Movement in other financial liabilities at fair value through income statement	**400**	(90)
Movement in other liabilities and provisions	**(5)**	(10)
Movement in external and related entity derivative financial instruments	**(82)**	741
Net cash flows provided by/(used in) operating activities	**396**	(1,520)

Note 41 Events after the reporting date

There were no material events after the reporting date.

Independent auditor's report

To the shareholder of Westpac New Zealand Limited

This report is for the Banking Group, comprising Westpac New Zealand Limited (the 'Bank') and the entities it controlled at 30 September 2016 or from time to time during the financial year.

This report includes:

- our audit opinion on the financial statements prepared in accordance with Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'), New Zealand International Financial Reporting Standards and International Financial Reporting Standards.
- our audit opinion on the supplementary information (excluding capital adequacy) prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.
- our audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order.
- our review opinion on the supplementary information relating to capital adequacy prepared in accordance with Schedule 11 of the Order.

Report on the audit of the financial statements (excluding supplementary information relating to capital adequacy)

Our audit opinion

In our opinion:

- The consolidated financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and included within the balance sheet and Notes 13, 33, 34, 35, 36, 38 and 39):

  (i) comply with generally accepted accounting practice in New Zealand;
  (ii) comply with International Financial Reporting Standards; and
  (iii) give a true and fair view of the financial position of the Banking Group as at 30 September 2016, and its financial performance and cash flows for the year then ended.

- The supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheet and Notes 13, 33, 34, 36, 38 and 39:

  (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  (ii) is in accordance with the books and records of the Banking Group; and
  (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

What we have audited

We have audited the consolidated financial statements required by Clause 24 of the Order and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 35 and 36) required by Schedules 4, 7, 13, 14, 15 and 17 of the Order.

The consolidated financial statements comprise:

- the consolidated balance sheet as at 30 September 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Independent auditors’ report (continued)

Basis for our audit opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Banking Group materiality: $58.9 million, which represents 5% of profit before income tax expense.

We chose profit before income tax expense as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

The following have been determined as the Key Audit Matters:

- Credit risk and provisions for impairment charges
- Operation of IT systems and controls

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Banking Group, the accounting processes and controls, and the industry in which the Banking Group operates.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current year. We have communicated the Key Audit Matters to the Board Audit Committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Board Audit Committee. In the table below we have described the Key Audit Matters and have included a summary of the principal audit procedures we performed to address those matters.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter

Credit risk and provisions for impairment charges

We focused on this area because of the highly subjective and complex judgements made by management in determining the necessity for, and then estimating the size of, impairment provisions against loans.

Provisions for impairment of loans that exceed specific thresholds established by management, are individually assessed by management with reference to the estimated future cash repayments and proceeds from the realisation of collateral held by the Banking Group in respect of those loans.

If an individually assessed loan is not impaired, it is then included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds noted above, is collectively assessed on a portfolio basis using models developed by management.

Particularly important elements in the impairment provisioning processes include:

- the identification of impaired loans and the cash flow forecasts (including the expected realisable value of any collateral held) supporting the calculation of individually assessed provisions. We consider this to be the most significant inherent audit risk due to the subjectivity involved in assessing how much of the debt will be recovered;
- the design of the models used in the collectively assessed provision calculations, and the appropriateness of the key assumptions used in those models, including the emergence periods (EP) for unidentified impairments, the probabilities of default (PD) and the loss given default (LGD) factors; and
- the economic overlays added to the model calculations, to reflect emerging trends or particular situations which are not captured by the models used.

Given the high level of subjectivity involved in estimating loan impairment provisions, one of our overriding audit objectives is to assess whether the calculations and underlying assumptions are consistent with those applied in the previous year, or that any changes are appropriate in the circumstances.

See Notes 6 and 13 to the financial statements which explains the critical accounting estimates and assumptions in determining provisions for impairment charges.

We assessed the design and tested the operating effectiveness of the controls over the loan impairment provisioning processes. The key controls included:

- governance oversight, including the continuous re-assessment by management that impairment models are calibrated in a way which is appropriate for the credit risks in the Banking Group’s loan portfolios;
- controls over identification of the deterioration in credit quality of individual loans;
- controls inherent in the IT systems that manage and transfer the data between underlying source systems and the impairment models; and
- the review and approval process for the outputs of the impairment models, and the adjustments and economic overlays that are applied to the modelled outputs.

We determined that we could rely on controls over the loan impairment provisioning processes for the purposes of our audit.

For a sample of individually assessed provisions we:

- considered the latest developments in relation to the borrower (as known to the Banking Group) and the basis of measuring the impairment provision;
- examined the forecast cash flows from the impaired borrowers, as prepared by management, and in particular challenged the key assumptions in relation to both the amount and timing of recoveries; and
- compared the valuation of collateral held to external evidence (where available) and assessed whether any independent expert advice was: (i) up to date; (ii) consistent with the strategy being followed in respect of the particular borrower; (iii) appropriate for the purpose; and (iv) used in the impairment calculations.

In relation to the collectively assessed provisions, which were calculated using models, our work included:

- critically examining management's model monitoring processes and, on a sample basis, conducting in-depth reviews of models used to calculate the impairment provisions;
- using our knowledge of industry practice and the actual past experience of the Banking Group’s loan portfolios to challenge the appropriateness of the key assumptions applied in the models, such as the EPs, PDs and LGDs; and
- performing sensitivity analyses on key assumptions.

For economic overlays to model calculations, we considered the potential for impairment to be affected by events not captured by management’s models, and challenged management to provide objective evidence that the economic overlays (for example, in relation to the dairy sector) were appropriate.

We found that the Banking Group’s approach to calculating loan impairment provisions was consistent with prior periods and that the underlying key assumptions, model outputs and overlays were considered to be reasonable.

Operation of IT systems and controls

We focused on this area because the Banking Group is heavily dependent on complex IT systems for the processing and recording of significant volumes of transactions.

In considering the complexity of the Banking Group's processes and the design of the internal control environment, there are some areas of the audit where we seek to place reliance on automated controls or reports. The effective operation of these areas is dependent on the Banking Group's IT General Control (ITGC) environment. For example:

- change management internal controls are important because they help ensure that changes to applications and data are authorised and made appropriately;
- IT operations are important as they help ensure errors in processing are resolved in a timely manner; and
- user access controls are important to help ensure staff have appropriate access to IT systems and that access is monitored.

For significant financial statement balances we gained an understanding of the business processes, key controls and IT systems used to generate and support those balances. Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key controls which support the continued integrity of the in-scope IT systems. This involved considering, and where appropriate, testing the following ITGC domains:

- governance controls used to monitor and enforce internal control consciousness throughout the Banking Group's technology teams and third party suppliers;
- program change management controls used to create, test and authorise changes to the functionality of systems;
- IT operations controls that help ensure any significant IT issues or incidents are escalated and resolved in a timely manner; and
- user access security controls that help make sure that access to IT systems are adequately restricted to appropriate personnel, periodically reviewed and promptly removed when access is no longer required.

Where technology services are provided by a third party, we:

- obtained assurance from the third party's auditors on the design and operating effectiveness of controls; and/or
- tested control design and operating effectiveness ourselves.

We also carried out further direct tests of the operation of key programs to establish the accuracy of calculations, the reliability of reports, and to assess the operation of automated controls and technology-dependent manual controls.

Where we noted either design or operating effectiveness issues, we performed additional compensating control tests and/or substantive audit procedures over key financial balances.

Information other than the financial statements and auditor's report

The Directors of Westpac New Zealand Limited (the 'Directors') are responsible for the other information in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 12. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Bank, for the preparation of the consolidated financial statements in accordance with Clause 24 of the Order, New Zealand International Financial Reporting Standards and International Financial Reporting Standards and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Notes 35 and 36) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding supplementary information relating to capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Notes 35 and 36) for the year ended 30 September 2016:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to capital adequacy

Our review opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 35 and 36, is not in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

We have reviewed the supplementary information relating to capital adequacy required by Schedule 11 of the Order as disclosed in Notes 35 and 36 of the financial statements of the Banking Group for the year ended 30 September 2016.

Basis for our review opinion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410).

Responsibilities of the Directors for the supplementary information relating to capital adequacy

The Directors are responsible, on behalf of the Bank, for the preparation of supplementary information relating to capital adequacy that is prepared in accordance with the Bank's conditions of registration and the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and is disclosed in accordance with Schedule 11 of the Order. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of supplementary information relating to capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy

We are responsible for reviewing the supplementary information relating to capital adequacy disclosed in Notes 35 and 36, to conclude whether anything has come to our attention that would cause us to believe that the supplementary information relating to capital adequacy disclosed in Notes 35 and 36, is not, in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosed in Notes 35 and 36.

Auditor independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Banking Group in the areas of other assurance services and agreed procedures. In addition, certain partners and employees of our firm may deal with the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditor of the Banking Group.

Who we report to

This report is made solely to the Bank's shareholder. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our work, for this report or for the opinions we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Jonathan Freeman.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
7 December 2016

Auckland